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Supreme Court, U.S.

**F I L E D**

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CLERK

# In the Supreme Court

OF THE

## United States

OCTOBER TERM, 1987

ALUMAX INC,  
*Petitioner,*

VS.

U.S. ALUMINUM CORPORATION/TEXAS,  
*Respondent.*

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### PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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## **QUESTIONS PRESENTED**

1. Does an appellate court have unlimited discretion to disregard a party's unambiguous and strategic trial court concession of law, contravening both the doctrine of invited error and the fundamental principle that litigants define the factual and legal contours of their disputes?
2. Does federal preemption require that the standard of proof for a California malicious prosecution action for bad faith patent enforcement be elevated from "a preponderance of the evidence" to "clear and convincing evidence," in order to avoid chilling patentees' incentives to protect their patents through infringement suits?

## **RULE 28.1 LIST**

The parent company of Petitioner Alumax Inc. is Amax Inc. Alumax Inc.'s affiliates and subsidiaries (other than wholly owned subsidiaries) are Aluminerie de Becancour Inc., Exal S.A., Idea S.A. and Mt. Holly Aluminum Company.

## TABLE OF CONTENTS

	<u>Page</u>
Questions Presented.....	i
Rule 28.1 List .....	i
Table of Authorities.....	iii
Opinion Below .....	1
Jurisdiction .....	2
Constitutional and Statutory Provisions Involved.....	2
Introduction .....	2
Statement of the Case.....	5
Reasons for Granting the Writ.....	8
1. By Disregarding Respondent's Unambiguous and Strategic Trial Court Concession, the Ninth Circuit Contravenes the Doctrine of Invited Error and the Fundamental Principle that Litigants Define the Factual and Legal Contours of their Disputes.....	8
2. By Refusing to Apply Federal Preemption to Elevate the Standard of Proof for Respondent's California Malicious Prosecution Claim from "A Preponderance of the Evidence" to "Clear and Convincing Evidence," the Ninth Circuit Frustrates the Objectives of the Patent Laws.....	15
Conclusion .....	19
Appendix A—Opinion and Judgment of the Ninth Circuit	A-1
Appendix B—Opinion and Judgment of the Northern District of California .....	A-6
Appendix C—U.S. Aluminum's Memorandum in Opposition to Alumax' Motion for Summary Judgment .....	A-11
Appendix D—May 29, 1986 Transcript of District Court Hearing on Alumax' Motion for Summary Judgment .....	A-23

## TABLE OF AUTHORITIES

### Cases

	<u>Page</u>
Addington v. Texas, 441 U.S. 418 (1979) .....	5, 15
Allison v. United States, 386 U.S. 13 (1967) .....	14
Anderson v. Liberty Lobby, Inc., 477 U.S. 242 (1986) ..	9
Austin v. Unarco Industries, Inc., 705 F.2d 1 (1st Cir. 1983), <i>cert. dismissed</i> , 463 U.S. 1247 (1983) .....	10
Avila v. Immigration & Naturalization Service, 731 F.2d 616 (9th Cir. 1984) .....	10
Bose Corp. v. Consumers Union of U.S., Inc., 466 U.S. 485 (1984) .....	11
Bradford v. United States ex rel. Department of Interior, 651 F.2d 700 (10th Cir. 1981) .....	4
Chaunt v. United States, 364 U.S. 350 (1960) .....	15
Colorado River Water Conservation District v. United States, 424 U.S. 800 (1976) .....	9
CVD, Inc. v. Raychem Co., 769 F.2d 842 (1st Cir. 1985), <i>cert. denied</i> , 475 U.S. 1016 (1986) .....	5
Dimidowich v. Bell & Howell, 803 F.2d 1473, <i>modified</i> , 810 F.2d 517 (9th Cir. 1987) .....	9
Gertz v. Robert Welch, Inc., 418 U.S. 323 (1974) ....	5, 16
Gilchrist v. Jim Slemmons Imports, Inc., 803 F.2d 1488 (9th Cir. 1986) .....	11
Greenholtz v. Nebraska Penal Inmates, 442 U.S. 1 (1979)	15
Gundy v. United States, 728 F.2d 484 (10th Cir. 1984) ..	3, 11
Handgards, Inc. v. Ethicon, Inc., 601 F.2d 986 (9th Cir. 1979), <i>cert. denied</i> , 444 U.S. 1025 (1980) .....	5, 16
Helvering v. Wood, 309 U.S. 344 (1940) .....	4
Hines v. Davidowitz, 312 U.S. 52 (1941) .....	18
Hormel v. Helvering, 312 U.S. 552 (1941) .....	4
In re Winship, 397 U.S. 358 (1970) .....	15
International Travelers Cheque Co. v. Bankamerica Corp., 660 F.2d 215 (7th Cir. 1981) .....	3, 10
Johnson v. Allyn & Bacon, Inc., 731 F.2d 64 (1st Cir.) <i>cert. denied</i> , 469 U.S. 1018 (1984) .....	4

## TABLE OF AUTHORITIES

## CASES

	<u>Page</u>
Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974)	16
Kincaid v. Sears, Roebuck & Co., 259 Cal. App. 2d 733 (1968) .....	17
Loctite Corp. v. Ultraseal Ltd., 781 F.2d 861 (Fed. Cir. 1985) .....	5
McPhail v. Municipality of Culebra, 598 F.2d 603 (1st Cir. 1979) .....	3
Merrill, Lynch, Pierce, Fenner & Smith, Inc. v. Ware, 414 U.S. 117 (1973) .....	17
Murphy v. City of Flagler Beach, 761 F.2d 622 (11th Cir. 1985) .....	3, 11
National Hockey League v. Metropolitan Hockey Club, Inc., 427 U.S. 439 (1976) .....	14
Neal v. Farmers Insurance Exchange, 21 Cal.3d 910 (1978) .....	19
Partenweederei, MS Belgrano v. Weigel, 313 F.2d 423 (9th Cir. 1962), <i>cert. denied</i> , 373 U.S. 904 (1963) ...	11
Pullman-Standard v. Swint, 456 U.S. 273 (1982) .....	11
Reactive Metals & Alloys Corp. v. ESM, Inc., 769 F.2d 1578 (Fed. Cir. 1985) .....	16
Santosky v. Kramer, 455 U.S. 745 (1982) .....	5, 15
Schiavone v. Fortune, 750 F.2d 15 (3d Cir. 1984), <i>aff'd</i> , 106 S. Ct. 2379 (1986) .....	3, 11, 14
Silver v. New York Stock Exchange, 373 U.S. 341 (1963)	17
Terkildsen v. Waters, 481 F.2d 201 (2d Cir. 1973) .....	11
Wetherbee v. United Insurance Co. of America, 18 Cal. App. 3d 266 (1971) .....	19
Woodby v. Immigration & Naturalization Service, 385 U.S. 276 (1966) .....	15

## TABLE OF AUTHORITIES CITED

	<u>Page</u>
<b>Statutes</b>	
<b>9th Cir. Rule:</b>	
36-2 .....	14
36-3 .....	14
<b>Fed. R. App. P.:</b>	
42 .....	8
<b>Fed. R. Civ. P.:</b>	
41 .....	8
51 .....	11
60 .....	10
<b>Sup. Ct. Rule:</b>	
16.7 .....	14
17.1(a) .....	14
23.1 .....	14
53 .....	8
<b>18 U.S.C.:</b>	
§§ 1961-1968 .....	18
<b>28 U.S.C.:</b>	
§ 1254(1) .....	2
§ 1332 .....	2
<b>35 U.S.C.:</b>	
§ 285 .....	2, 6, 16
<b>U.S. Constitution:</b>	
art. I, § 8, cl. 8 .....	2
art. III, § 2, cl. 1 .....	8

## TABLE OF AUTHORITIES CITED

Page

## Other Authorities

Abel, <i>A Comparative Theory of Dispute Institutions in Society</i> , 8 Law & Society Rev. 217 (1973) .....	9
Damaska, <i>Structure of Authority and Comparative Criminal Procedure</i> , 84 Yale L.J. 480 (1975) .....	13
Hazard, <i>The Adversary System</i> , in Ethics in the Practice of Law (1978) .....	8
Leff, <i>Law and</i> , 87 Yale L.J. 989 (1978) .....	9
Restatement (Second) of Judgments, § 27 (1981) .....	11
Shapiro, <i>Toward a Theory of Stare Decisis</i> , 1 J. Legal Stud. 125 (1972) .....	13

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**PETITION FOR WRIT OF CERTIORARI TO THE  
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FOR THE NINTH CIRCUIT**

Petitioner Alumax Inc. ("Petitioner" or "Alumax") respectfully prays that a writ of certiorari issue to review the judgment and Opinion ("the Opinion") of the United States Court of Appeals for the Ninth Circuit ("the Ninth Circuit") in the above-entitled case.

**OPINIONS BELOW**

The Ninth Circuit Opinion as amended, reported at 831 F.2d 878, appears in Appendix A (A-1 to A-5) attached to this Petition. The Opinion of the United States District Court for the Northern District of California, reported at 636 F. Supp. 441, appears in Appendix B (A-6 to A-10) attached to this Petition.

## JURISDICTION

Respondent U.S. Aluminum Corporation/Texas ("Respondent" or "U.S. Aluminum"), a Texas corporation, invoked diversity jurisdiction (28 U.S.C. § 1332) to sue Petitioner, a California corporation, in the Northern District of California for malicious prosecution arising out of a prior patent infringement suit. On June 12, 1986, Judge Weigel granted summary judgment to Petitioner. On November 3, 1987, however, the Ninth Circuit entered an Opinion, as amended on November 25, 1987, which reversed and remanded the District Court's judgment. A timely petition for rehearing *en banc* was denied on March 1, 1988, and this Petition was filed thereafter within 90 days. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

*U.S. Constitution* art. I, § 8, cl. 8:

"The Congress shall have Power . . . To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

35 U.S.C. § 285:

"The court in exceptional [patent infringement] cases may award reasonable attorney fees to the prevailing party."

## INTRODUCTION

This suit presents important issues of judicial administration and federal preemption. It arises from an earlier proceeding in which Respondent successfully defended itself against Alumax' patent infringement claim but failed to establish by clear and convincing evidence that Alumax brought that claim in bad faith.

Respondent then brought a malicious prosecution action in the Northern District of California ("the District Court") for Alumax' purported bad faith patent enforcement. Alumax moved for summary judgment on the ground that the applicable standard

of proof for its alleged bad faith was clear and convincing evidence, the identical standard which the Federal Circuit previously held Respondent had failed to prove in the underlying patent infringement action. Respondent's counsel conceded in oral argument before the District Court "that we would be bound by the standard of clear and convincing and I'm prepared to meet that standard, and I think we can even beat that." A-25. Relying on that concession, the District Court granted summary judgment on the basis of collateral estoppel. A-8. But the Ninth Circuit reversed that ruling. It held that Respondent's concession was of "no effect," and that the policies which require raising the standard of proof in antitrust actions for bad faith patent enforcement to clear and convincing evidence were inapplicable to state law malicious prosecution claims. See A-3 to A-5.

At first glance, the Opinion appears unremarkable. It is relatively brief and unanimous. Yet the Opinion's reasoning is extraordinary in two respects.

First, there is no question but that Respondent made a strategic, but ultimately fatal, concession in the trial court. Notwithstanding the substantial policies underlying the rule that litigants may not raise new issues on appeal absent exceptional circumstances—much less issues specifically conceded in the trial court—the Ninth Circuit agreed that the concession was improvident and disregarded it. This reprieve inexorably clashes with the doctrine of invited error, and conflicts in principle with numerous decisions in other Circuits which are based on circumstances indistinguishable from this case.<sup>1</sup> By resting its holding exclusively on the principle that "[a]ppellate courts are not bound . . .

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<sup>1</sup> See, e.g., *Murphy v. City of Flagler Beach*, 761 F.2d 622, 630 (11th Cir. 1985); *Schiavone v. Fortune*, 750 F.2d 15, 18-19 (3d Cir. 1984), aff'd, 106 S. Ct. 2379 (1986); *Gundy v. United States*, 728 F.2d 484, 488 (10th Cir. 1984); *International Travelers Cheque Co. v. Bankamerica Corp.*, 660 F.2d 215, 223-24 (7th Cir. 1981); *McPhail v. Municipality of Culebra*, 598 F.2d 603, 607 (1st Cir. 1979) ("A party may not 'sandbag' his case by presenting one theory to the trial court and then arguing for another on appeal.").

by stipulations as to the substance of law" (A-3), the Ninth Circuit effectively extinguishes the invited error doctrine. Moreover, the Opinion is at odds with the fundamental principle that, with rare exceptions, the parties—not the court—determine the factual and legal issues in the litigation. Litigants frequently, for strategic reasons, make explicit and implicit concessions concerning issues which they choose not to contest. This Opinion will significantly impair judicial administration because courts will no longer be able to rely on counsels' decisions to concede, withdraw or not even raise issues.

This Court has long adhered to a restrictive standard which bars consideration of new issues on appeal unless there are exceptional circumstances (e.g., a change in law between the time of trial and appeal) or significant prudential considerations (e.g., avoiding resolution of a constitutional issue).<sup>2</sup> While an issue expressly conceded is a more persuasive example than an issue never raised of a "new issue" which should not be, and routinely is not, considered on appeal,<sup>3</sup> the Opinion incongruously guarantees appellate consideration of such conceded issues. Moreover, the Opinion's standardless review—ignoring whether exceptional circumstances or prudential considerations even exist—departs from settled precedent and impels the resolution of a difficult issue of constitutional preemption.

Second, the Opinion wrongly decides the constitutional pre-emption issue and thereby frustrates the goals of the patent laws. There have been numerous occasions when this Court has elevated the standard of proof for a cause of action based on state

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<sup>2</sup> *Hormel v. Helvering*, 312 U.S. 552, 557 (1941). See, e.g., *Johnson v. Allyn & Bacon Inc.*, 731 F.2d 64, 73 (1st Cir.), cert. denied, 469 U.S. 1018 (1984) ("only in horrendous cases where a gross miscarriage of justice would occur, and the new theory must be so compelling as to virtually insure appellant's success.").

<sup>3</sup> *Bradford v. United States ex rel. Department of Interior*, 651 F.2d 700, 704 (10th Cir. 1981) (rule "is particularly applicable where the party wishing to raise the new issue on appeal invited the alleged error below"). See *Hormel v. Helvering*, supra note 2; *Helvering v. Wood*, 309 U.S. 344, 348-49 (1940); cases cited in note 1.

law in order to protect federal interests.<sup>4</sup> Similarly, appellate courts have uniformly raised the standard of proof in antitrust actions for bad faith patent enforcement to clear and convincing evidence to avoid diluting patentees' incentives to bring infringement suits.<sup>5</sup>

Any suit challenging bad faith patent enforcement may substantially compromise constitutional interests in encouraging patentees. But the Opinion ignores that—instead offering the unprincipled assertion that the standard of proof should be more demanding only when federal patent and federal antitrust laws conflict. The Opinion admits that “conflict is possible between state malicious prosecution laws and federal patent laws.” A-4. Yet, it then formalistically ignores that the malicious prosecution suit here subjects patentees to a comparable, and invariably more uncertain, threat of punitive damages than the antitrust laws’ treble damage remedy. The Opinion therefore, by failing to elevate the standard of proof, advances a state law remedy at the expense of the substantial chilling of the federal constitutional patent right.

## STATEMENT OF THE CASE

Howmet Aluminum Corp. (“Howmet”) filed a patent infringement suit against Respondent in March 1982 in the United States District Court for the Northern District of Texas. Shortly before trial, Howmet was acquired by Alumax. One of Respondents’ counterclaims in that suit was that Howmet’s “action and Plaintiff’s [Howmet’s] charge of infringement and the proceedings to date were recklessly filed and pursued in bad faith.” Excerpts

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<sup>4</sup> See, e.g., *Santosky v. Kramer*, 455 U.S. 745, 758-61 (1982); *Addington v. Texas*, 441 U.S. 418, 423-27 (1979); *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 342 (1974).

<sup>5</sup> See, e.g., *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77 (Fed. Cir. 1985); *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 993-96 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980). Cf. *CVD, Inc. v. Raychem Co.*, 769 F.2d 842, 849-51 (1st Cir. 1985), cert. denied, 475 U.S. 1016 (1986) (antitrust action for alleged bad faith claim of trade secrets under state law).

from the Record ("E.R.") 58, ¶ f. The trial court agreed, and "specifically found said underlying patent infringement action to have been brought and thereafter maintained in bad faith." E.R. 4, ¶ 12 & 90-100. But the Federal Circuit held that there was utterly no basis for awarding attorneys' fees to Respondent: "[W]e are compelled to reverse the award of fees here [under 35 U.S.C. § 285] because the court clearly erred in basing its finding on Howmet's shifting theories for infringement under the doctrine of equivalents, and alternatively finding that the Biebuyck and Schlattman affidavits were filed in bad faith and not on personal knowledge." E.R. 115-16.

Even before the Federal Circuit had ruled, Respondent sued Alumax for malicious prosecution in the Northern District of California.<sup>6</sup> Alumax moved for summary judgment on the ground that the Federal Circuit's finding of no bad faith collaterally estopped Respondent's malicious prosecution claim. Respondent's principal argument against that motion was that numerous evidentiary facts allegedly unresolved by the Federal Circuit made collateral estoppel inappropriate. *See A-18 to A-21.* Respondent did not contest that the proper standard of proof was clear and convincing evidence (*see A-11 to A-22*)—the same standard the Federal Circuit applied in the underlying patent infringement action when it held that Alumax had not enforced its patent in bad faith.

At the summary judgment hearing, Respondent unambiguously conceded that it was obligated to prove its malicious prosecution claim by clear and convincing evidence. A-25. That concession was strategic.<sup>7</sup> Relying on Respondent's concession and rejecting

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<sup>6</sup> The initial complaint contained claims for malicious prosecution (founded on diversity jurisdiction) and antitrust and RICO violations.

<sup>7</sup> Respondent's opposition to Alumax' summary judgment motion rested almost exclusively on the argument (abandoned on appeal by Respondent's new counsel) that the issue of Alumax' bad faith was not "actually litigated" in the underlying patent infringement suit. *See A-18 to A-21.* To persuade the District Court that this argument should prevail, Respondent's counsel asserted that evidence of liability was overwhelming—he was prepared "to even beat" the clear and convincing

Respondent's attempt to raise facts known at the time of the patent infringement action to frustrate collateral estoppel, the District Court granted summary judgment in favor of Alumax. A-8.

The Ninth Circuit reversed the District Court's ruling. First, it dismissed Respondent's trial court concession—reasoning that “[a]ppellate courts are not bound . . . by stipulations as to the substance of law . . . and that the stipulation by Aluminum's former counsel is of no effect.” A-3. Second, it reached the constitutional issue which the District Court had avoided (by relying on Respondent's concession), and proceeded to reject raising the standard of proof to clear and convincing evidence. The Ninth Circuit observed that it had employed that higher standard “to provide reasonable protection for the honest patentee who brings an infringement action” against antitrust suits, and that there was “surface appeal” to affording the same protection to patentees subject to malicious prosecution claims. A-4. Nevertheless, the Ninth Circuit refused to apply federal preemption because “the policies underlying . . . state malicious prosecution laws and federal patent laws . . . are not inherently antithetical,” and the “chilling effect . . . [of an antitrust suit] upon the good faith actions of patentees is far greater than that posed by enforcement of state malicious prosecution laws.” A-4 & A-5. It is from this decision that the instant Petition follows.

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standard of proof. A-25. That was a knowing and thoughtful decision made by experienced trial counsel to help his client overcome the exigency that he perceived at the time.

## REASONS FOR GRANTING THE WRIT

- 1. BY DISREGARDING RESPONDENT'S UNAMBIGUOUS AND STRATEGIC TRIAL COURT CONCESSION, THE NINTH CIRCUIT CONTRAVENES THE DOCTRINE OF INVITED ERROR AND THE FUNDAMENTAL PRINCIPLE THAT LITIGANTS DEFINE THE FACTUAL AND LEGAL CONTOURS OF THEIR DISPUTES.**

*Certiorari* should be granted to consider whether appellate courts are free to disregard a party's concession concerning the legal rules governing a dispute. While the rather cursory attention given to that issue below does not suggest a question meriting the discretionary jurisdiction of this Court, Petitioner submits that quite the opposite is the case: the decision below is, in fact, premised upon a radical and erroneous view of the judicial process which will have a deleterious impact on case administration.

Perhaps the most fundamental premise of our judicial system is that it is an *adversary* system: that is, a system for the resolution only of genuine<sup>8</sup> disputes which parties *elect* to bring into the courts, as opposed to disputes which are disregarded, negotiated, arbitrated or resolved through some other non-judicial mechanism. There is no publicly-mandated obligation to litigate at all.

Parties similarly are free to forego particular claims or defenses and to determine for themselves the terms upon which an action, once filed, will be discontinued.<sup>9</sup> Parties also determine (within broad limits) the evidence which they will proffer and the arguments which they will advance. Hence, "the adversary system is distinctive for the fact that the parties, through their lawyers, investigate the facts, frame the legal issues, and present the evidence to a passive tribunal that then reaches decision." Hazard, "The Adversary System," in *Ethics in the Practice of Law* 120 (1978).

<sup>8</sup> Hence Article III's "case and controversy" requirement. See U.S. Constitution art. III, § 2, cl. 1.

<sup>9</sup> See Sup. Ct. R. 53; Fed. R. App. P. 42; Fed. R. Civ. P. 41.

That fundamental configuration is deeply rooted, and ordinarily is beyond controversy. The Opinion, however, challenges that basic adversary structure by holding that a party may not bind an appellate court (and, hence, itself) to an "erroneous" position of law. That rule, if upheld, will affect the nature of the litigation process in fundamental respects. The issue therefore should be considered by this Court as a matter of sound judicial administration. *See, e.g., Colorado River Water Conservation District v. United States*, 424 U.S. 800, 817 (1976).

During pre-trial proceedings in this case, Respondent conceded that it was obliged to produce clear and convincing evidence of bad faith—a concession which was then expressly relied upon by the District Court in granting Alumax' motion for summary judgment.<sup>10</sup> *See A-8 and A-25.* Having thus failed in the trial court, Respondent (through new counsel) invited the Ninth Circuit to afford it a second chance by relieving it of the consequences of its earlier strategic concession. The Ninth Circuit accepted that invitation, holding that "[a]ppellate courts are not bound . . . by stipulations as to the substance of law." A-3.

The premise of the Ninth Circuit's decision is that it is the function of appellate courts to determine, and correctly apply, the law "regardless of what the parties say the law might be." *Id.* (citing *Dimidowich v. Bell & Howell*, 803 F.2d 1473, 1477 n.1, modified, 810 F.2d 517 (9th Cir. 1987)). While that is surely true as a general proposition, it does not answer the question presented here: whether the purported interest in a "correct" determination of the law overrides the fundamental adversary structure of litigation in which the litigants control the contours of their "case or controversy."<sup>11</sup>

<sup>10</sup> The relevant evidentiary standard was pertinent to the disposition of Alumax' summary judgment motion under this Court's decision in *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 252-57 (1986).

<sup>11</sup> There is nothing inevitable about this structure of adjudication. Many countries adhere to the so-called "inquisitorial" mode of procedure. *See generally Abel, A Comparative Theory of Dispute Institutions in Society*, 8 Law & Society Rev. 217 (1973). Many other models can easily be conceived. *See Leff, Law and*, 87 Yale L.J. 989 (1978). Our

The litigation process begins in the federal courts with the initial pleadings and proceeds to a final pre-trial order which, subject to certain narrow exceptions, controls the further course of proceedings at trial and on appeal. There are numerous junctures in the process where parties are called upon, or have the opportunity, to narrow the loci of their factual and legal issues by making concessions concerning matters of both fact and law which they choose not to contest.<sup>12</sup>

Courts, as well as litigants, *must* be able to rely upon such concessions. See *International Travelers Cheque Co. v. Bankamerica Corp.*, 660 F.2d 215, 224 (7th Cir. 1981) (parties precluded from complaining "of errors which . . . [they have] committed, invited, induced the court to make, or to which . . . [they] consented"). Yet under the Ninth Circuit's reasoning here, *no* concession as to a matter of law has meaning, however conscious or strategic it may be.<sup>13</sup> The Opinion then effectively

point here is only that *given* the adversary structure of the American adjudicatory system, the decision below represents a material, if *sub silentio*, departure which is sufficiently important to justify consideration by this Court.

<sup>12</sup> There are a variety of strategic reasons behind such concessions. In this case, trial counsel utilized the concession to a heightened standard of proof to impress the District Court with the purported strength of Respondent's case on the merits. In other instances, a party may abandon or never raise an issue because it appears too expensive to resolve, or is less likely to produce a favorable result. Still again, a party faced with a close, and undecided, question may elect not to press for the most favorable ruling because of the significant risk of reversal on appeal should the appellate court view the issue differently.

<sup>13</sup> Lest the issue presented here be obscured, there are, of course, mechanisms for redress of *inadvertent* concessions of fact and law. See, e.g., Fed. R. Civ. P. 60. In addition, there are limited exceptions to the invited error doctrine in "exceptional circumstances" such as where the law *changes* while a case is on appeal, thus nullifying the premise of the earlier concession. See *Avila v. Immigration & Naturalization Service*, 731 F.2d 616, 619 (9th Cir. 1984); *Austin v. Unarco Industries, Inc.*, 705 F.2d 1, 15-16 (1st Cir.), cert. dismissed, 463 U.S. 1247 (1983). These situations, however, are far different from the holding below that stipulations of law generally lack binding effect.

extinguishes the invited error doctrine, and conflicts in principle with numerous decisions in other Circuits.<sup>14</sup>

The potential effect of permitting parties to escape routinely from such invited errors is immense. No longer will courts be able to effectively manage their dockets by relying on strategic decisions to concede, withdraw or simply not raise certain issues. Parties will have substantial incentives to acquiesce in erroneous statements of the law in the trial court, only to reverse ground on appeal (as here) in order to obtain a second bite if they lose. The invited error doctrine exists precisely to prevent that scenario.<sup>15</sup>

There is no basis for appellate courts to review concessions of law differently from concessions of fact. Surely if the conceded point in this case had been one of fact rather than law,<sup>16</sup> no one would entertain seriously the suggestion that Respondent should be permitted to argue on appeal that it was not bound by its

<sup>14</sup> In *Gundy v. United States*, 728 F.2d 484 (10th Cir. 1984), the plaintiff complained—like Respondent here—that the trial court had applied a more demanding standard of proof (reasonable medical certainty) than was required (reasonable medical probability). The Tenth Circuit rejected that claim because the plaintiff had invited the error by relying on that standard himself. *Id.* at 488. See *Murphy v. City of Flagler Beach*, 761 F.2d 622, 630 (11th Cir. 1985) (defendant held to trial court concession that there was a statutory due process right to an administrative hearing although Florida appellate courts were in disagreement on that legal issue); *Schiavone v. Fortune*, 750 F.2d 15, 18-19 (3d Cir. 1984), *aff'd*, 106 S.Ct. 2379 (1986). See also Fed. R. Civ. P. 51 which provides that the failure to object to proposed jury instructions constitutes acquiescence in the legal principles they embody and a waiver of any objections thereafter. See *Gilchrist v. Jim Slemons Imports, Inc.*, 803 F.2d 1488, 1493 (9th Cir. 1986).

<sup>15</sup> See cases cited at note 1 *supra*; *Terkildsen v. Waters*, 481 F.2d 201, 204-05 (2d Cir. 1973); *Partenweederei, MS Belgrano v. Weigel*, 313 F.2d 423, 425 (9th Cir. 1962), *cert. denied*, 373 U.S. 904 (1963).

<sup>16</sup> And assuming, contrary to experience, that there were a "bright line" distinction between "fact" and "law." See, e.g., *Bose Corp. v. Consumers Union of U.S., Inc.*, 466 U.S. 485, 498-501 (1984); *Pullman-Standard v. Swint*, 456 U.S. 273, 287-88 (1982); Restatement (Second) of Judgments, § 27, at 253 (1981).

concession or that the court of appeals was free to determine, for itself, the *true* facts "regardless of what the parties may say the [facts] might be."

The argument for a different rule in the case of concessions of law presumably proceeds from an unarticulated premise that whereas there is no non-private interest in whether a particular fact is regarded as true or false in litigation, there is such an interest in legal principles because they may be "generalized" as part of the common law. But that suggestion must be considered against the broader framework of an adversarial jurisprudential system in which the essential judicial function is to resolve only actual controversies *within the bounds of the factual and legal issues framed by the parties* who voluntarily elect to submit their dispute to the courts for resolution.<sup>17</sup> Whatever the public interest in the "correct" determination of a legal issue, it has not been considered the court's function to decide issues which have not been presented for resolution (or have been consciously withdrawn from dispute), any more than it would be appropriate for a court to assume facts contrary to those which the parties stipulated to exist. Similarly, where litigants elect to resolve their dispute short of final adjudication, it is not the province of the judiciary to prevent them from doing so, notwithstanding the fact that the result is to preclude resolutions of a matter of potentially great legal, or even public, significance.<sup>18</sup>

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<sup>17</sup> There are issues which may be raised by the court *sua sponte* such as lack of subject matter jurisdiction. Such issues are the rare exception and, invariably, result in *limiting* rather than expanding the range of matters to be decided. In fact, there are a number of doctrines which serve that limiting function, such as justiciability, ripeness, standing (in its non-Article III sense) and abstention.

<sup>18</sup> See page 8 and note 9 *supra*. The most common exception to that rule is class and derivative actions in which judicial approval of settlement or discontinuance is required. That exception is not, however, contrary to the principles discussed in text. Rather, approval is required in class and derivative actions only because the outcome has an effect upon the specific legal rights of persons who are not before the court, not because there is an independent *judicial* interest in resolving the dispute in a particular fashion.

If the court's "passive" position in resolving adversarial disputes is to be taken seriously, the judicial function is appropriately discharged by a court's independence, its availability to decide issues which *are presented* to it and its willingness to decide *those issues* "correctly." The fact that its decision may, in certain circumstances, have "generalized" importance is no more a necessary reason to compel courts to ignore a party's concession on a matter of law, than it is to compel litigation in the first instance, or to preclude the settlement of cases once filed.<sup>19</sup>

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<sup>19</sup> In economic terms, the question of precedent can be viewed as an "externalities" problem. As to any legal issue, "X", litigants (A and B) plus a partially determinate class (C) have an interest in its resolution, the latter because, *inter alia*, it may affect the outcome of a future dispute in which members of the class (C1, C2 . . .) are involved. That interest is taken account of, in part, by permitting non-parties to participate in litigation as *amicus curiae* or, where the fit is particularly close, by "representative" litigation. Within limits, strangers also may influence the determination of legal issues by helping to finance the cost of A's suit against B or, even, by purchasing the claim outright ("assignment"). However, there is no right to compel a party to litigate or continue to litigate against his or her will.

Respondent might argue that the proper response to this "market failure" problem is social intervention in the form of refusing to let a party enter into, or be bound by, an "incorrect" stipulation of law. In many countries, such an argument likely would be persuasive. Thus, according to Professor Mirjan Damaska, "to continental eyes" our system of legal rule creation resembles a "charmingly confusing Chagallian universe of freely floating objects." Indeed, it is typical "in many countries" for supreme courts to "formally enunciate advisory legal opinions" as a direct judicial means of influencing the development of the law. Damaska, *Structures of Authority and Comparative Criminal Procedure*, 84 Yale L.J. 480 (1975). However, rightly or wrongly, American courts adhere—in the development of legal rules—to what Martin Shapiro has described as a "litigational market," a term which "[he] use[s] precisely . . . to suggest an invisible hand . . . [T]his market, like Adam Smith's, has many rules and conventions that harness individual greed to a higher cause." Shapiro, *Toward a Theory of Stare Decisis*, 1 J. Legal Stud. 125, 128 (1972). Stated simply, the process relies upon individual litigants to determine what issues are litigated (or *not* litigated) and how they are litigated.

What is more, the value of a legal principle as "precedent" extends only so far as the material circumstances giving rise to it. The notion that the development of the law will, in some way, be adversely impacted, if a party is permitted to agree to an "erroneous" point of law, overlooks the fact that appellate decisions are premised upon, and apply no further than, the particular circumstances which produce them, including concessions as to applicable law.<sup>20</sup> As the Third Circuit recognized in refusing to permit a party to escape a trial court concession, "[a]lthough plaintiffs concession, of course, is irrelevant to the proper interpretation of New Jersey law, it is dispositive of plaintiffs argument on appeal." *Schiavone v. Fortune*, *supra* 750 F.2d at 18-19.

At a minimum, resolution of the issue here presents an important, and difficult, question about the litigation process. This Court should not permit an apparently abrupt departure from existing law (*see* cases cited at note 1 *supra*) and a material retreat from the adversary model of adjudication without considering the important implications of the decision below upon the administration of justice in the federal courts.<sup>21</sup>

In terms of the case at hand, while one can argue in favor of the Ninth Circuit's result on "market failure" grounds, it is hard to distinguish that type of "solution" from, for example, a rule that would forbid a party from abandoning litigation after the District Court has ruled on issue "X" if members of the stranger class (C1, C2) wish to have that ruling reviewed on appeal. Moreover, the problem of "incorrect" legal rules can be readily dealt with by less intrusive mechanisms, such as specifying the existence of the stipulation in the court's opinion (the "true" rule could even be enunciated as "dicta") or by making sure that the decision remains unpublished or otherwise is deprived of precedential effect. *See* note 20 *infra*.

<sup>20</sup> Furthermore, cases which are *sui generis* or otherwise unsuited for use as precedent are withheld from publication—and, thus, lack any precedential significance. *See, e.g.*, 9th Cir. R. 36-2 and 36-3.

<sup>21</sup> While Petitioner would, of course, welcome plenary review, it suggests that this may be an appropriate case for summary reversal. Sup. Ct. R. 16.7, 17.1(a) and 23.1. *See, e.g.*, *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 439 (1979); *Allison v. United States*, 386 U.S. 13 (1967).

**2. BY REFUSING TO APPLY FEDERAL PREEMPTION TO ELEVATE THE STANDARD OF PROOF FOR RESPONDENT'S CALIFORNIA MALICIOUS PROSECUTION CLAIM FROM "A PREPONDERANCE OF THE EVIDENCE" TO "CLEAR AND CONVINCING EVIDENCE," THE NINTH CIRCUIT FRUSTRATES THE OBJECTIVES OF THE PATENT LAWS.**

The standard of proof "represents an attempt to instruct the factfinder concerning the degree of confidence our society thinks he should have in the correctness of factual conclusions for a particular type of adjudication." *In re Winship*, 397 U.S. 358, 370 (1970) (Harlan, J. concurring). It "is a crucial component of legal success, the primary function of which is 'to minimize the risk of erroneous decisions.'" *Santosky v. Kramer*, 455 U.S. 745, 785 (1982) (Rehnquist, J. dissenting) (quoting *Greenholtz v. Nebraska Penal Inmates*, 442 U.S. 1, 13 (1979)). The standard of proof therefore "serves to allocate the risk of error between the litigants and to indicate the relative importance attached to the ultimate decision." *Addington v. Texas*, 441 U.S. 418, 423 (1979). As a result, litigants in most civil actions "share the risk of error in roughly equal fashion" through the preponderance of the evidence standard "[s]ince society has a minimal concern with the outcome of such private suits," whereas "society imposes almost the entire risk of error upon itself" in criminal proceedings by demanding proof of guilt beyond a reasonable doubt. *Id.* at 423-24.

This Court has routinely adopted an intermediate standard of clear and convincing evidence in civil cases in which "particularly important individual interests" are at stake.<sup>22</sup> *Id.* This heightened standard also has been applied to civil suits which involve state law claims, when federal interests of sufficient magnitude have been implicated. See cases cited in note 4 *supra*. For example, clear and convincing evidence has been required for civil commitment proceedings (see *Addington v. Texas*, 441 U.S. at 425

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<sup>22</sup> See, e.g., *Woodby v. Immigration & Naturalization Service*, 385 U.S. 276, 285 (1966) (deportation); *Chaunt v. United States*, 364 U.S. 350, 353 (1960) (denaturalization).

("civil commitment for any purpose constitutes a significant deprivation of liberty that requires due process protection")), and for libel suits against public figures. See *Gertz v. Robert Welch, Inc.*, 418 U.S. at 342 (accommodating first amendment interests in freedom of speech and press).

Because of the need to preserve adequate incentives under the federal patent laws,<sup>23</sup> appellate courts have uniformly raised the standard of proof in federal antitrust actions for bad faith patent enforcement to clear and convincing evidence. See cases cited in note 5 *supra*. These decisions rest on the ground that:

[S]uch barriers to antitrust suits . . . are necessary to provide reasonable protection for the honest patentee who brings an infringement action to promote his legal monopoly. . . . [T]he jury should be instructed that a patentee's infringement suit is presumptively in good faith and . . . can be rebutted only by clear and convincing evidence. Such an instruction accords the patentee a presumption commensurate with the statutory presumption of patent validity set forth in the patent laws . . .

*Hangards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980) (preponderance of

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<sup>23</sup> The major purpose of the federal patent laws always has been to promote scientific progress "by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974). An essential component of the inventor's incentive to invest substantial resources in research and development is that the exclusive right to profit from the invention is truly exclusive. Consequently, the patent holder must be able to protect its patent through infringement suits. Both Congress and the federal courts have recognized that any significant restriction on a patent holder's ability to sue potential infringers would seriously stifle the incentive to invent. See 35 U.S.C. § 285 ("The court in exceptional [patent infringement] cases may award reasonable attorney fees to the prevailing party."); *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582 (Fed. Cir. 1985) (no attorneys fees awarded against patentee unless patentee's bad faith is demonstrated by clear and convincing evidence).

evidence standard "might well chill" legitimate patent enforcement efforts). Elevating the standard of proof for bad faith patent enforcement becomes even more imperative because "'[b]ad faith' . . . is a subjective state of mind the existence of which, while not susceptible to certain proof, easily can spring from suggestive and weakly corroborative circumstances." *Id.* at 993.

A malicious prosecution claim under California law presents a comparable, and more uncertain, threat of punitive damages than the antitrust laws, and therefore also necessitates proof of bad faith by clear and convincing evidence.<sup>24</sup> Since Respondent failed to prove Alumax' bad faith by that same standard in the Federal Circuit (*see E.R. 195-96*), its malicious prosecution claim should be collaterally estopped. The Ninth Circuit, however, refused to require clear and convincing evidence for two reasons: the policies of state malicious prosecution laws and federal patent laws "are not inherently antithetical" and malicious prosecution actions allegedly have less of a "chilling effect" than antitrust actions on good faith patent enforcement efforts. A-4 and A-5.

The first reason provides no principled basis for decision. The decisions elevating the standard of proof in antitrust suits for bad faith patent enforcement (*see note 5 supra*) were cases of implied repeal, in which two federal statutory schemes conflicted.<sup>25</sup> This suit involves federal preemption. As this Court has held, implied repeal and federal preemption analysis are virtually identical.<sup>26</sup>

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<sup>24</sup> A plaintiff in a California malicious prosecution suit ordinarily must establish bad faith by a mere preponderance of the evidence. *See, e.g., Kincaid v. Sears, Roebuck & Co.*, 259 Cal. App. 2d 733, 739 (1968).

<sup>25</sup> *See Silver v. New York Stock Exchange*, 373 U.S. 341, 357 (1963). Heeding the instruction that the proper approach is to reconcile the operation of both statutory schemes with one another rather than holding one completely ousted (*see Merrill, Lynch, Pierce, Fenner & Smith, Inc. v. Ware (Ware)*, 414 U.S. 117, 126 (1973)), these decisions raised the standard of proof for an antitrust claim instead of immunizing patent enforcement actions from antitrust scrutiny.

<sup>26</sup> This Court in *Ware*, in determining whether certain California statutes were preempted by an alleged conflict with the federal securities laws, explained: "In contrast with *Silver* we are not confronted here with

Both doctrines are triggered when a federal/state remedy (antitrust, malicious prosecution) "stands as an obstacle to the accomplishment and execution of the full purposes and objectives" of the federal (patent) law. *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941).

Refusing to elevate the standard of proof because the malicious prosecution and patent laws are not "inherently antithetical" therefore reflects an inexplicable schism whereby the objectives of the patent laws will be protected through implied repeal but not through federal preemption. The Opinion provides an open invitation to circumvent the strictures on federal antitrust claims for bad faith patent enforcement by suing on other grounds which may just as severely impair patentees' incentives. The policies of civil RICO (a claim originally asserted by Respondent in this suit) are hardly "inherently antithetical" to those of the federal patent laws. See 18 U.S.C. §§ 1961-1968. But good faith patent enforcement would be equally as "chilled" by a RICO treble damage action as by an antitrust suit. Similarly, the policies underlying bad faith patent enforcement claims based on state laws for unfair competition and unfair trade practices (oftentimes with potential double or treble damage exposure) are not "inherently antithetical" to the policies of the federal patent laws, yet such suits may significantly discourage patent enforcement efforts. Indeed, it is uncertain under the Opinion's reasoning whether clear and convincing evidence would be required even for state antitrust treble damages suits for bad faith patent enforcement.

The Opinion secondly asserts that the chilling effect from the threat of treble damages under the antitrust laws upon the good faith actions of patentees "is far greater" than that posed by the enforcement of state malicious prosecution claims. A-5. That assertion is oblivious to punitive damage exposure under California's malicious prosecution law, which poses a serious *threat* of

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conflicting federal regulatory schemes. The present controversy concerns the interrelationship between the statutes adopted, respectively, by the Federal Government and a State. The analytical framework of *Silver* is instructive nonetheless." See 414 U.S. at 126 & n.8.

even greater than treble damages.<sup>27</sup> There is certainly no *a priori* basis to conclude that the punitive damage threat to a patentee from a malicious prosecution claim is any less than the threat from a federal antitrust claim for treble damages. The Opinion therefore undercuts the goals of the federal patent laws by imposing a substantial chilling effect upon good faith patent enforcement which will seriously impair the incentives of all present and potential patentees.

### CONCLUSION

For these reasons a writ of certiorari should issue to review the judgment and opinion of the Ninth Circuit.

Dated: May 31, 1988

Respectfully submitted,

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<sup>27</sup> See, e.g., *Neal v. Farmers Insurance Exchange*, 21 Cal.3d 910, 927-28 (1978) (approving punitive damages 74 times greater than compensatory damages); *Wetherbee v. United Insurance Co. of America*, 18 Cal. App. 3d 266, 270-271 (1971) (approving punitive damages 200 times greater than compensatory damages).



**Appendix A**  
**For Publication**  
**United States Court of Appeals**  
**for the Ninth Circuit**

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No. 86-2289  
D.C. No.  
CV-84-5995-SAW

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U.S. Aluminum Corporation/Texas, a corporation,  
Plaintiff-Appellant,

v.

Alumax, Inc., a corporation,  
Defendant-Appellee.

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**Order and Amended Opinion**

Appeal from the United States District Court  
for the Northern District of California  
Stanley A. Weigel, District Judge, Presiding

Argued and Submitted  
May 15, 1987—San Francisco, California

Filed November 3, 1987  
Amended November 25, 1987

Before: Joseph T. Sneed, Arthur L. Alarcon and  
William C. Canby, Jr., Circuit Judges.

Opinion by Judge Canby

**OPINION**

CANBY, Circuit Judge

U.S. Aluminum Corporation sued Alumax, Inc. for malicious prosecution. The district court granted Alumax's motion for summary judgment on the ground of collateral estoppel, and Aluminum appealed. We review the district court's entry of

summary judgment *de novo*. *Fagner v. Heckler*, 779 F.2d 541, 543 (9th Cir. 1985). We reverse and remand for further proceedings.

### FACTS AND PROCEEDINGS BELOW

In the first lawsuit, Aluminum successfully defended a patent infringement action brought by Alumax's subsidiary Howmet Aluminum Corp. The district court awarded attorneys fees to Aluminum under section 285 of the federal patent law. 35 U.S.C. § 285. On appeal the Federal Circuit rejected appellant's contention that Alumax had prosecuted that action in bad faith and reversed on the attorney's fees issue.

Aluminum then brought the present action, a suit for malicious prosecution, against Alumax. Alumax filed a motion for summary judgment. The district court granted the motion on the ground that Aluminum was collaterally estopped from litigating a necessary element of its claim. The district court explained that a malicious prosecution claim, at a minimum, requires a showing of bad faith. Aluminum would not be permitted to prove Alumax's bad faith, however, because the Federal Circuit had previously found that Alumax had not acted in bad faith. Aluminum raises three issues to challenge the application of collateral estoppel: (1) the standard of proof of bad faith in the patent infringement suit was higher than the standard appropriate for a malicious prosecution claim; (2) there was an inadequate opportunity to conduct discovery on the bad faith issue in the patent infringement action; and (3) the Federal Circuit's finding of no bad faith did not resolve the same issue presented by the malicious prosecution claim.

### DISCUSSION

#### A. *Burden of Proof*

Collateral estoppel may be applied against Aluminum on the issue of good faith only if that issue was litigated in the previous action under the same or a less rigorous standard of proof than that required in the present action. *One Lot Emerald Cut Stone v. United States*, 409 U.S. 232, 235 (1972) (per curiam). In the previous action brought by Alumax, Aluminum was required to

prove bad faith by clear and convincing evidence in order to establish its claim for attorneys' fees. *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582 (Fed Cir. 1985). If Aluminum is required to prove malice in the malicious prosecution action by a mere preponderance of the evidence, then there can be no issue preclusion under the rule established in *One Lot Emerald Cut Stone*.

At the hearing on Alumax's motion for the summary judgment now under review, Aluminum's former counsel stipulated that it must prove bad faith by clear and convincing evidence to establish malicious prosecution. Aluminum now contends that the malicious prosecution action brought under state law requires the plaintiff to establish malice by a mere preponderance of the evidence. See e.g. *Kincaid v. Sears, Roebuck, & Co.*, 259 Cal. App.2d 733, 739, 66 Cal. Rptr 915, 919 (1968).

We must decide, first, whether we are bound by Aluminum's stipulations below. Ordinarily courts are bound by the stipulations of the parties. Appellate courts are not bound, however, by stipulations as to the substance of law. *Dimidowich v. Bell & Howell*, 803 F.2d 1473, 1477 n.1, modified 810 F.2d 1517 (9th Cir. 1987). In *Dimidowich*, both parties entered into a stipulation of law and the district court made its determination consistent with that stipulation. On appeal the parties continued to rely on that stipulation. Nevertheless, we held that we could not be bound by an erroneous stipulation of law "regardless of what the parties say the law might be." *Id.* at 1477. We conclude that the same principle applies here, and that the stipulation by Aluminum's former counsel is of no effect.

We are left, then, with the task of determining the appropriate burden of proof in this case. We agree with Aluminum that under the California law of malicious prosecution, malice ordinarily need be proved only by a preponderance of the evidence. See *Kincaid v. Sears, Roebuck & Co.*, *supra*. Indeed, Alumax does not seriously dispute that proposition. Instead, Alumax argues that we should require a higher standard of proof in this type of case in order to prevent the state law cause of action from interfering with the objectives of the federal patent law. In so arguing, Alumax

relies heavily on our decision in *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), cert. denied, 444 U.S. 1025 (1980).

*Handgards* was an antitrust action brought by a plaintiff who alleged that the defendant had monopolized the relevant market by bringing a series of patent infringement actions in bad faith. The trial court instructed the jury that bad faith in bringing the patent actions need only be established by a preponderance of the evidence. We reversed, holding that the jury should be instructed that a patentee's infringement action is presumed to be brought in good faith, and the presumption can only be rebutted by clear and convincing evidence. *Id.* at 996. Our decision stemmed from the "complex interaction" of the patent law and the antitrust law, a matter of continuing concern to courts and commentators. *Id.* at 992. To protect the right of patentees to test the validity of their patents in infringement suits, we erected a barrier to antitrust suits, with their treble damages, "to provide reasonable protection for the honest patentee who brings an infringement action to protect his legal monopoly." *Id.* at 996. Thus the good-faith patentee was protected from the too-easy retrospective finding by a jury in a later antitrust case that his unsuccessful patent infringement suit had been brought in subjective bad faith. See *Id.* at 993.

Alumax argues that we should protect patentees from state malicious prosecution actions in the same manner that we protected them from the antitrust laws in *Handgards*. Despite the surface appeal of that argument, we reject it. First, we do not find here the same kind of interrelationship that exists between the patent laws and the antitrust laws. Patents confer a legal monopoly; the ground they occupy is necessarily carved out of that otherwise occupied by the antitrust laws. In areas where each law potentially extends, to broaden the coverage of one law necessarily interferes with the policies behind the other. Proper adjustment of the tension between the two is a continuing and delicate exercise that has long engaged the federal courts. *Id.* at 992.

While we do not deny that conflict is possible between state malicious prosecution laws and federal patent laws, the policies underlying each are not inherently antithetical. Patents do not create an exemption from state malicious prosecution laws. In-

deed, the balance we reached in *Handgards* between the rights of suing patentees and their defendants presupposed the continued existence of state law remedies for bad faith suits; "nothing appears to preclude a successful defendant in an infringement action from bringing a common law malicious prosecution claim" *Id.* at 998 n.17.

Finally, we must recognize that one of the reasons that we found it necessary in *Handgards* to protect patentees from anti-trust actions was that they posed the threat of treble damages. *Id.* at 993. The chilling effect of that potential remedy upon the good faith actions of patentees is far greater than that posed by the enforcement of state malicious prosecution laws.

For all of these reasons, we decline to extend the rule of *Handgards* to this California malicious prosecution action. Aluminum's burden in this action is to establish malice by a preponderance of the evidence. Consequently, Aluminum is not collaterally estopped by its failure to establish, in the previous litigation, bad faith by clear and convincing evidence.

#### B. Identity of the Issues and Opportunity for Discovery

Aluminum contends that collateral estoppel is inappropriate for two additional reasons. First, the element of "exceptional circumstances" in the previous patent action is not identical to the element of malice in the malicious prosecution action. Collateral estoppel requires that the estopped issue be identical to an issue litigated in a previous action. Second, the previous patent action did not provide an opportunity for appellant to conduct full discovery on the question of appellee's malice in bringing that action. Differences in discovery procedures may justify "not allowing a prior judgment to have estoppel effect in a subsequent action, even between the same parties." *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 331 n.15 (1979). Alumax contends that this latter claim fails because Aluminum did not raise the issue in the district court below and because in the previous action Aluminum did not request (1) a bifurcated trial, (2) additional discovery relevant to section 285, and (3) information from the appellee directly. We need not reach any of these issues in view of our ruling that the burdens of proof are different.

REVERSED AND REMANDED.

**Appendix B**

In the United States District Court  
For the Northern District of California

No. C-84-5995 SAW

U.S. Aluminum Corp./Texas,  
Plaintiff,

vs.

Alumax, Inc.,  
Defendant

**ORDER GRANTING SUMMARY JUDGMENT IN  
FAVOR OF DEFENDANT**

[Filed June 12, 1986]

Defendant moves the Court for an order dismissing plaintiff's case, or, in the alternative, for an order granting summary judgment in defendant's favor. The Court has considered the briefs, arguments of counsel and the entire record in this matter.

Prior to its filing of this suit, plaintiff, U.S. Aluminum Corp./Texas (US Aluminum), successfully defended against a patent infringement suit brought by Howmet Aluminum, Inc. During the litigation, Howmet was bought by Alumax, Inc., defendant herein ("Alumax" is hereinafter used to refer to both Howmet and Alumax). At trial, US Aluminum sought to recover its attorneys' fees under 35 U.S.C. § 285, which provides for recovery of attorneys' fees by the prevailing party in a patent infringement action in "exceptional cases."

The trial court in the patent action awarded fees because, *inter alia*, Alumax repeatedly changed its legal position during the litigation and because certain affidavits filed by Alumax in opposition to US Aluminum's summary judgment motion were not based on personal knowledge, and so were filed in bad faith. The Federal Circuit reversed, holding that it could not be said that the affidavits were not made on personal knowledge, and that Alumax's shifting legal theories did not *ipso facto* lead to the

conclusion that the litigation was conducted in bad faith. The circuit court did not address the other grounds discussed in the trial court's oral findings and conclusions, but concluded that the trial court's determination that the action was brought in bad faith was "clearly erroneous."

After the Federal Circuit's decision, plaintiff filed this action for malicious prosecution.\* Defendant claims that plaintiff is collaterally estopped from asserting Alumax's bad faith and so moves to dismiss or, in the alternative, for summary judgment. This motion raises two major questions. First, the Court must determine what plaintiff's burden of proof will be at trial. Second, if the burden is one of clear and convincing evidence, the Court must decide whether the "issue" of Alumax's bad faith was decided in defendant's favor in the patent litigation.

Plaintiff's normal burden of proof in a malicious prosecution case is a preponderance of the evidence. *Kincaid v. Sears, Roebuck & Co.*, 259 Cal.2d 733 (1968). In order to recover attorneys' fees in a patent infringement case pursuant to 35 U.S.C. § 285, the prevailing party must establish bad faith by clear and convincing evidence. *Reactive Metals and Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578 (Fed. Cir. 1985). Plaintiff's failure to sustain the higher burden in the patent action cannot estop him from attempting to demonstrate his theory under the lower standard. *One Lot Emerald Cut Stones v. United States*, 409 U.S. 232 (1972); *Peterson v. Clark Leasing Corp.*, 451 F.2d 1291 (9th Cir. 1971) (per curiam).

But defendant argues that when the action underlying a malicious prosecution case was for patent infringement, a plaintiff must be held to the standard of proof dictated by § 285. The logic of defendant's argument is that Congress' purpose in requiring the higher standard of proof under § 285 would be frustrated if a party could recover not only attorneys' fees, but nonmonetary and

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\* Plaintiff filed a similar action in this Court prior to the Federal Circuit's ruling. That action included a claim for malicious prosecution joined with two other claims. The malicious prosecution claim was dismissed without prejudice. The other causes of action were dismissed with prejudice.

punitive damages as well, by bringing a suit for malicious prosecution and being held only to proof by a preponderance of the evidence. Plaintiff has stipulated that the higher standard is appropriate.

The remaining problem is to determine the specific issue that was decided in the first litigation. Defendant contends that the question of bad faith was resolved. Plaintiff responds that the Federal Circuit's "narrow holding" should be limited to the factual propositions explicitly resolved therein. US Aluminum further states that there are a number of relevant factual allegations that were not resolved by the appellate court. Taken *in toto*, plaintiff claims these facts establish Alumax's bad faith.

Plaintiff attempts to avoid collateral estoppel by "splitting" the "ultimate issue" of Alumax's bad faith into its component factual parts. Although all of the facts plaintiff now urges in support of its malicious prosecution action were known at the time of the first trial, plaintiff contends that they were not all considered by the trial court or the appellate court. It is not clear whether this would be because plaintiff did not call all of these facts to the courts' attention or the courts simply did not pass on all of the questions before them.

Plaintiff cannot escape collateral estoppel by failing to raise all of his contentions during the first litigation. His "failure to litigate an issue actually raised as extensively as possible does not bar estoppel." *Los Angeles Unified School Dist. v. Los Angeles Branch of the NAACP*, 714 F.2d 935, 945 (9th Cir. 1983).

If plaintiff did present all of the facts supporting its claims of bad faith to the trial court in the earlier litigation, collateral estoppel will apply only to the "issue" actually decided. *United States v. Roux*, 437 F.2d 209 (9th Cir. 1971). The Restatement (Second) of Judgments, § 27 comment c, sets out four factors to consider in deciding whether the "issue" in this suit and the patent action are the same. The factors are: (1) the overlap of evidence and argument between the two issues; (2) whether the new evidence and argument requires the application of new rules of law; (3) whether pretrial preparation in the first case would have disclosed to the parties the matter being litigated in the

second action; and (4) the closeness of the claims. *See also Starker v. United States*, 602 F.2d 1341, 1344 (9th Cir. 1979) (applying this test).

Applying the Restatement test, plaintiff is estopped from litigating the issue of bad faith. The evidence and arguments in the case at bar are identical with the ultimate issue resolved in the patent litigation, and the same legal standards apply. At the trial of the patent action, plaintiff was surely aware that a malicious prosecution action might lie in the future. Finally, the elements for recovery under § 285 are virtually identical to the elements of a *prima facie* case for malicious prosecution.

Wright and Miller have noted that the doctrine of collateral estoppel is most appropriately applied in those cases in which a party seeks to advance new arguments regarding facts fixed at the time of the first litigation. 8 Wright & Miller, *Federal Practice and Procedure*, § 4417, p. 158. *See also Akron Pressform Mold Co. v. McNeil Corp.*, 496 F.2d 230 (6th Cir. 1974), cert. denied, 419 U.S. 997 (1975). The facts alleged by plaintiff in this suit were all on the record at the time of the first trial and were considered by the trial court in making its findings.

Plaintiff asserts that the appellate court's narrow language in its opinion reversing the trial court on the issue of recovery of attorneys' fees, limits the effect of collateral estoppel. However, the Federal Circuit, by reversing but not remanding the trial court's holding, implicitly passed on the entire record and the facts therein supporting the trial court's judgment. *Bose Corp. v. Consumers Union of the United States, Inc.*, 466 U.S. 485 (1984). By doing so, the appellate court effectively and finally disposed of the entire issue of Alumax's bad faith.

Because all the relevant facts are before the Court, summary judgment, rather than dismissal, is appropriate. Accordingly,

IT IS HEREBY ORDERED that defendant's motion for summary judgment is granted, and judgment shall be entered in its favor.

Dated: June 12, 1986

/s/ STANLEY A. WEIGEL  
Judge

**Appendix C**

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United States District Court  
Northern District of California

Civil Action No. C84 5995 SAW

U.S. Aluminum Corporation/Texas,  
Plaintiff,

v.

Alumax, Inc.,  
Defendant.

U.S. Aluminum's Opposition to Alumax's Motions  
to Dismiss and/or for Summary Judgment

Date: May 29, 1986

Courtroom: 8

Time: 2:15 P.M.

**INTRODUCTION**

This is a malicious prosecution action arising out of the spiteful commencement and prosecution of a frivolous patent infringement suit by Alumax's predecessor, Howmet Aluminum Corporation ("Howmet"). *Howmet Aluminum Corporation v. U.S. Aluminum Corporation/Texas*, Civil Action No. 3-82-426-G (E.G.Tex., decided January 10, 1984). In the trial court's decision in that action, U.S. Aluminum was completely exonerated of Howmet's infringement charges and awarded attorneys fees based

on two examples of Howmet's bad faith. In summing up its findings, the trial court stated:

"This is an action that should not have been brought and after being brought should have been dismissed as the facts became known to Plaintiff (Howmet)." (Leon Decl., Ex. 2, p. 28)<sup>1</sup>.

Now Alumax contends in its summary judgment motion that U.S. Aluminum should be collaterally estopped from maintaining this malicious prosecution action because, on appeal, the Federal Circuit held that the two examples of Howmet's bad faith cited by the trial court did not *ipso facto* establish sufficient "exceptional" circumstances to justify the award of attorneys fees under 35 U.S.C. § 285. (Leon Decl., Ex. 4, pp. 7-8). In that opinion, the Federal Circuit affirmed the trial court's findings of noninfringement, recognizing U.S. Aluminum as the prevailing party. (Leon Decl., Ex. 4, pp. 6-7). As will be shown in this Opposition, there is much greater evidence of Howmet's maliciousness than the two examples cited by the trial court and considered insufficient by the Federal Circuit to award statutory attorneys fees. This evidence raises numerous and substantial genuine issues of material fact which may be resolved only at trial.

## ISSUE

Is U.S. Aluminum collaterally estopped from raising material issues of fact in this action which have neither been actually litigated before or necessarily decided by the Federal Circuit?

## STATEMENT OF FACTS

In July 1978, Howmet, through its attorney Mr. Thomas Cantrell, first accused U.S. Aluminum of infringing Howmet's U.S. Patent No. 4,008,552 ("'552 patent"). (Vand. Decl., ¶ 3)<sup>2</sup>.

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<sup>1</sup> "Declaration Of Jeffrey A. Leon In Support Of Defendant Alumax Motion To Dismiss And/Or For Summary Judgment."

<sup>2</sup> "Declaration Of C.C. Vanderstar In Opposition To Alumax's Motions To Dismiss And/Or For Summary Judgment."

The '552 patent discloses and claims a structure for interconnecting aluminum window dividers. Claim 2 of the '552 patent defines this structure in terms of precise dimensional formulas.

In response to Howmet's accusation, U.S. Aluminum asked which of its products infringed and why. (Vand. Decl. ¶ 3). U.S. Aluminum was told by Howmet that the water diverters or flashing strips on its "Thermo-Set" window dividers were the infringing structure (Vand. Decl. ¶ 3). U.S. Aluminum then sent Howmet a letter demonstrating that U.S. Aluminum's flashing strips were based on a design that had been known long before Howmet's patent. Apparently satisfied with U.S. Aluminum's response, Howmet did not pursue its claim. (Vand. Decl. ¶ 3).

Not hearing anything further from Howmet, U.S. Aluminum expanded its operations at the end of 1978 into Dallas, Texas, Howmet's home base. (Vand. Decl. ¶ 4). Over the years, U.S. Aluminum's business grew steadily in Dallas. By the end of 1982, U.S. Aluminum had made a serious penetration into Howmet's window divider market with Texas sales exceeding \$6 million. (Vand. Decl. ¶ 4). It was then that Howmet decided to resurrect its abandoned charges of patent infringement.

Mr. Cantrell, Howmet's attorney, sent U.S. Aluminum a drawing of U.S. Aluminum's Thermo-Set window divider with dimensions from claim 2 of Howmet's '552 patent scribbled in the margin. (Vand. Decl. ¶ 5). One of the dimensions was mis-marked in an apparent attempt to stretch the claim to cover U.S. Aluminum's window divider. (Vand. Decl. ¶ 5). But even with the advantage of this mismarked dimension, Cantrell's drawing showed on its face that U.S. Aluminum's window divider would *not* meet the requirements of Howmet's claims. (Vand. Decl. ¶ 5). Despite his best efforts to gerrymander the claim dimensions, Cantrell could still not fit the U.S. Aluminum window dividers within the required claim dimensions.

Further, U.S. Aluminum explained in detail the baseless nature of Howmet's infringement charge to Howmet's Vice President, Mr. John Cameron, at a meeting in U.S. Aluminum's Monterey Park offices. (Vand. Decl. ¶ 6). Nonetheless, Howmet refused to be dissuaded from plowing ahead with its infringement suit.

Howmet filed its patent infringement suit against U.S. Aluminum in 1982. Howmet was so anxious to start its action that it did not even bother to inspect one of U.S. Aluminum's accused window dividers prior to filing suit. (Leon Decl., Ex. 2, pp. 27-28). Howmet initially contended that all its claims were infringed, but soon had to fall back on only claim 2. (Vand. Decl. ¶ 7).

But even with respect to claim 2, Howmet could not get its own inventor of the '552 patent, Lawrence Biebuyck, to testify that U.S. Aluminum's accused window dividers satisfied the dimensional requirements of claim 2. (Leon Decl., Ex. 2, p. 11). Mr. Biebuyck admitted at his deposition that the formulas of claim 2 were not met by the accused U.S. Aluminum window dividers. (Vand. Decl., ¶ 8). Mr. Biebuyck also acknowledged at his deposition that each of the formulas of claim 2 were important to the invention. (Vand. Decl. ¶ 8). Despite these disabling admissions, Howmet still persisted with its lawsuit.

In opposition to U.S. Aluminum's motion for summary judgment, Howmet submitted the affidavits of Biebuyck and its expert, Mr. Russell Schlattman. In both affidavits Howmet contended that U.S. Aluminum's window divider operated in substantially the same manner as the window divider of the '552 patent because U.S. Aluminum's connecting flange had a similar load-bearing function. (Leon Decl., Ex. 2, pp. 28-29). Neither Biebuyck nor Schlattman, though, had bothered to inspect U.S. Aluminum's accused window divider prior to submitting their affidavits. (Leon Decl., Ex. 2, pp. 30-31). At the summary judgment hearing, U.S. Aluminum removed the connecting flange from its window divider and demonstrated that the flange had no load bearing function. (Leon Decl., Ex. 2, p. 30). Howmet dropped its equivalence theory involving U.S. Aluminum's flange, but still persisted in pressing ahead with its lawsuit. (Leon Decl., Ex. 2, pp. 30-31).

At trial, Mr. Biebuyck admitted again that U.S. Aluminum's window dividers did not meet the dimensional requirements of claim 2. (Vand. Decl., ¶ 9; Leon Decl., Ex. 2, p. 11). Even Howmet's own expert, Mr. Schlattman, testified that U.S. Aluminum's window dividers did not meet the dimensional requirements of claim 2. (Leon Decl., Ex. 2, p. 24). Howmet's attorney,

Mr. Cantrell, nonetheless sought to prove infringement of claim 2 by introducing a typed, blow-up version of the mismarked drawings he had sent to U.S. Aluminum earlier in the case (Vand. Decl. ¶ 9). On cross-examination, Mr. Schlattman established the fact that his own attorney's drawing was mismarked. (Vand. Decl. ¶ 9). Undeterred by the lack of support from his own expert, Mr. Cantrell also used another drawing depicting U.S. Aluminum's *double* panel window divider to try to prove that U.S. Aluminum's accused *single* panel window divider met the dimensional requirements of claim 2. (Vand. Decl. ¶ 10).

Disgusted with the frivolousness of plaintiff's case, the trial court held that there was no infringement and that Howmet's '552 patent was invalid. The trial court stated in its opinion:

"Plaintiff [Howmet] recklessly brought this action without any direct knowledge, examination or testing of the physical items comprising the accused system of Defendant, or any installation thereof, at the time of bringing of this action and thereafter, despite clear evidence of non-infringement and non-equivalence stubbornly persisted in maintaining this action. After learning that Claim 2 of the patent in suit did not describe Defendant's Thermo-Set system, through admissions of the Patentee, Lawrence Biebuyck, Plaintiff persisted and continued to prosecute this action in bad faith in frivolous disregard of the facts, and in a manner to unfairly conceal or obscure or distort the facts." (Leon Decl., Ex. 2, pp. 27-28; emphasis added).

The trial court awarded U.S. Aluminum attorneys fees pursuant to 35 U.S.C. § 285. The trial court cited Howmet's shifting theories of equivalence and the failure of Biebuyck and Schlattman to execute their affidavits based on personal knowledge as findings of fact which established the requisite "exceptional" circumstances. (Leon Decl., Ex. 2, pp. 28-37).

On appeal, the Federal Circuit affirmed the trial court's findings of non-infringement. (Leon Decl., Ex. 4, pp. 6-7). The Federal Circuit, nonetheless, determined that the two grounds cited by trial court did not, in and of themselves, establish

sufficient bad faith to meet the "exceptional case" test of 35 U.S.C. § 285:

"Although the district court correctly recognized the heavy burden necessary to establish an exceptional case under 35 U.S.C. § 285, we are compelled to reverse the award of fees here because the court clearly erred in basing its finding on Howmet's shifting theories for infringement under the doctrine of equivalents, and in alternatively finding that the Biebuyck and Schlattmen affidavits were filed in bad faith and not on personal knowledge . . ." (Leon Decl., Ex. 4, pp. 7-8).

## ARGUMENT

### 1. Congressional Enactment Of A Discretionary Fee Statute For Patent Cases Has Not Precluded Application Of California's Malicious Prosecution Law

Alumax devotes a substantial portion of its summary judgment brief to a theoretical discussion of how California's malicious prosecution law "conflicts" with the federal attorney fees statute for patent cases, 35 U.S.C. § 285. (Alumax Br., pp. 4-11). Alumax implies that California's malicious prosecution law may somehow be pre-empted by the attorneys fees statute. Alumax, nonetheless, correctly concludes at the end of its argument that no such pre-emption exists and that U.S. Aluminum is *not* precluded from bringing this malicious prosecution claim. (Alumax Br., p. 11, fn. 7).

A state cause of action may only be pre-empted by federal statute where the nature of the regulated subject matter permits no other conclusion or where Congress has unmistakably ordained such preclusion. *DeCanas v. Bica*, 424 U.S. 351, 356, 47 L.Ed.2d 43, 49, 96 S.Ct. 933 (1976). (California statute regulating employment of aliens upheld despite the fact that the power to regulate immigration is exclusively a federal power). In the field of patent law, the Supreme Court has held on several occasions that related state laws are not pre-empted by the federal patent statutes. *Kewanee Oil Company v. Bicron Corporation*, 416 U.S. 470, 40 L.Ed.2d 315, 94 S.Ct. 1879 (1974) (State trade secret

- law is not pre-empted); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 59 L.Ed.2d 296, 99 S.Ct. 1096 (1979) (State contract law governing royalty agreements not pre-empted).

With regard to the attorneys fees statute for patent cases, 35 U.S.C. § 285, the Ninth Circuit has already recognized the right of a prevailing litigant to use the antitrust laws as an alternate means of recovering his attorneys fees from a prior patent infringement defense. *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979). Unlike the subject matter jurisdiction statute for patent cases cited in Alumax's Brief, the patent attorneys fees statute contains no language suggesting that it is the "exclusive" remedy available to prevailing litigants. (Alumax Br., p. 6, fn. 3; 28 U.S.C. § 1338(a) and 35 U.S.C. § 285). The Ninth Circuit has, in fact, explicitly stated in its *Handgards* decision that it sees nothing to preclude a successful defendant in a patent infringement action from bringing a common law malicious prosecution claim. *Handgards, supra*, 601 F.2d at 998, fn. 17.

This explicit statement from the Ninth Circuit, along with the absence of any unmistakable indication from Congress to the contrary, amply establishes that U.S. Aluminum's malicious prosecution claim is not pre-empted or in "conflict" with the federal attorneys fees statute in patent cases.

## 2. It Is Alumax, Not U.S. Aluminum, Which Bears The Burden Of Proof On Alumax's Summary Judgment Motion

Alumax argues in its Brief that U.S. Aluminum's burden of proof should be by clear and convincing evidence rather than by a mere preponderance of the evidence. (Alumax Br., pp. 8-11). Alumax's argument completely misses the point.

Since it was Alumax, not U.S. Aluminum, which brought this summary judgment motion, it is Alumax which bears the burden of proof to clearly establish the non-existence of any genuine issue of material fact. *SEC v. Koracorp Industries*, 575 F.2d 692, 697 (9th Cir. 1978); *Program Engineering v. Triangle Publications, Inc.*, 634 F.2d 1188, 1192 (9th Cir. 1980); F.R.C.P. 56(c). It would be reversible error for this Court to shift the burden of proof to U.S. Aluminum on summary judgment even though U.S. Aluminum would bear the ultimate burden at trial. *Koracorp*,

*supra*, 575 F.2d at 698. On summary judgment, all factual inferences are to be taken against the moving party, Alumax, and in favor of the opposing party, U.S. Aluminum. *Koracorp.* *id.*

The question of what burden of proof U.S. Aluminum should bear at trial is, at this point, premature.

### 3. U.S. Aluminum Is Entitled To Argue Claims And Factual Issues Which Have Not Been Actually Litigated And Necessarily Decided

Over the years, the courts have evolved the two doctrines of *res judicata* and collateral estoppel to preclude relitigation of matters which have been conclusively determined by a court of competent jurisdiction. *Montana v. United States*, 440 U.S. 147, 152, 59 L.Ed.2d 210, 216, 99 S.Ct. 970 (1979); *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979).

"The doctrine of *res judicata* provides that when a final judgment has been entered on the merits of a case, it is a finality as to the *claim or demand* in controversy, concluding parties and those in privity with them, not only as to every matter which was offered and received to sustain or defeat the claim or demand, but as to any other admissible matter which might have been offered for that purpose." *Nevada v. United States*, 463, U.S. 110, 129-130, 77 L.Ed.2d 509, 524, 103 S.Ct. 2906 (1983) (emphasis added).

The "claims or demands" involved in the previous action were for patent infringement, patent invalidity, antitrust violation and statutory attorneys fees. To recover statutory attorneys fees under 35 U.S.C. § 285, the prevailing party must demonstrate that the case was "exceptional". See, *Rohm & Haas Company v. Crystal Chemical Company*, 736 F.2d 688 (Fed. Cir. 1984).

The "claim or demand" involved in this action is for malicious prosecution. The elements of a malicious prosecution claim under California state law are: (1) a judicial proceeding favorably terminated, (2) lack of probable cause, and (3) malice. *Weber v. Leuschner*, 240 Cal.App.2d 829, 50 Cal.Rptr. 86 (1966).

Since there is no identity between the "claims or demands" of the two actions, the doctrine of *res judicata* does not apply. Not

even Alumax contends that the doctrine of *res judicata* should apply under the circumstances of this case.

Alumax instead relies on the doctrine of "collateral estoppel". The Supreme Court has defined collateral estoppel as precluding "relitigation of issues actually litigated and necessary to the outcome of the first action" in cases where the second action is based upon a different cause of action than the first action. *Parklane Hosiery, supra*, 439 U.S. at 326, fn. 5. The key distinction between collateral estoppel and *res judicata* for purposes of Alumax's motion is that collateral estoppel applies *only* to those factual issues "*actually litigated and necessary to the outcome*" of the prior decision whereas, by contrast, *res judicata* more broadly precludes relitigation of factual issues that "*might*" have been so litigated. See, *United States v. Roux*, 437 F.2d 209 (9th Cir. 1971). It is undisputed that collateral estoppel is the only one of the two doctrines that can possibly apply to the facts of this case.

With this distinction in mind, the only factual issues which were "*actually litigated and necessary to the outcome*" of the Federal Circuit's decision to deny U.S. Aluminum statutory attorneys fees were:

- (1) Whether Howmet's shifting theories for infringement under the doctrine of equivalents established *ipso facto* the bad faith necessary for a finding of an "exceptional" case (Leon Decl., Ex. 4, pp. 6-7);
- (2) Whether the failure of Biebuyck and Schlattman to inspect the accused device prior to submitting their affidavits in opposition to summary judgment established the bad faith necessary to prove an "exceptional" case. (Leon Decl., Ex. 4, pp. 6-7).

The material factual issues raised by this Opposition which tend to prove malicious prosecution but yet were neither considered by the Federal Circuit nor "*actually litigated and necessary to the outcome*" of the Federal Circuit's decision include:<sup>3</sup>

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<sup>3</sup> By listing these factual issues, U.S. Aluminum in no way waives the right to adduce further evidence of malicious prosecution during discovery or to add to its list of factual issues as the case progresses.

- (1) Whether Howmet's resurrection of an abandoned patent infringement claim in 1982 when U.S. Aluminum was penetrating its market is evidence of malice;
- (2) Whether Cantrell's mismarking the dimensions of claim 2 on a drawing of U.S. Aluminum's window divider is evidence of malice and a lack of probable cause;
- (3) Whether the visible failure of U.S. Aluminum's window divider to meet the dimensional requirements of claim 2 on Cantrell's drawing, even with the advantage of a mismarked dimension, is evidence of malice and a lack of probable cause;
- (4) Whether Howmet's decision to press forward with its lawsuit after the frivolousness of its claims was explained to its Vice President is evidence of malice and a lack of probable cause;
- (5) Whether Howmet's decision to file suit without even bothering to inspect the accused device is evidence of malice and a lack of probable cause;
- (6) Whether Howmet's persistence in the lawsuit even after its own inventor admitted in his deposition that the claims-in-suit were not literally infringed is evidence of malice and a lack of probable cause;
- (7) Whether Howmet's introduction of a mismarked, blow-up exhibit at trial that even its own expert admitted was mismarked is evidence of malice;
- (8) Whether Howmet's reference to a *double* panel diagram to prove infringement of U.S. Aluminum's *single* panel configuration, when it was obvious that the single panel configuration did not meet the claim requirements, is evidence of malice.

In an attempt to obscure the Federal Circuit's actual holding, Alumax contends in its Brief that the Federal Circuit has found that U.S. Aluminum "failed to demonstrate that the (Howmet) patent infringement action was instituted in bad faith . . ." (Alumax Br., p. 14). Besides ignoring the carefully limiting language chosen by the Federal Circuit for its holding,<sup>1</sup> Alumax fundamentally misunderstands the role of the Federal Circuit in reviewing trial court decisions.

It is the trial court, not the Federal Circuit, which makes findings of fact. F.R.C.P. 52. The role of the Federal Circuit is to review the trial court's findings of fact to determine if they are either clearly erroneous or insufficient to support the trial court's holding. *Dennison Manufacturing v. Panduit Corp.*, No. 85-1150, slip. op. at 2 (Sup.Ct. April 21, 1986) (Per Curium). In the case of attorneys fees, if the Federal Circuit determines that the findings of fact the trial court has relied upon to support its award of attorneys fees are legally insufficient, the Federal Circuit *must* set aside the award. *Hughes v. Novi American, Inc.*, 724 F.2d 122, 124 (Fed.Cir. 1984); *See Reactive Metals v. ESM, Inc.*, 769 F.2d 1578, 1582-1583 and 1585 (Fed.Cir. 1985). The Federal Circuit will not make its own independent review of the record to determine if there are any other facts which would support such an award. *Hughes, id.*

In view of this procedure, the only factual issues "actually litigated and necessarily decided" by the Federal Circuit in this case were that Howmet's shifting theories on the doctrine of equivalents and that Howmet's unsubstantiated summary judgment affidavits were insufficient to find the case "exceptional" enough under 35 U.S.C. § 285 to support an award of attorneys fees. The Federal Circuit did not purport to address, nor could it permissibly address, the larger issue of whether Howmet brought their infringement suit in bad faith. That issue is accordingly subject to legitimate dispute in this malicious prosecution action.<sup>4</sup>

Further, even those two findings of fact which the Federal Circuit found insufficient by themselves to support an award of statutory attorneys fees should be available for U.S. Aluminum to combine with other evidence of malice to prove, from a totality of the circumstances, that Howmet prosecuted its patent infringement suit with malice and without probable cause.

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<sup>4</sup> The Federal Circuit's decision, in fact, never addressed the finding of the trial court that, based on consideration of *all* the evidence and testimony, Howmet's suit was brought "in bad faith in frivolous disregard of the facts". (Leon Decl., Ex. 2, p. 28). If any party should be collaterally estopped to contest whether Howmet's suit, *as a whole*, was brought in bad faith, it should be Alumax.

## CONCLUSION

Under the law, U.S. Aluminum may not be collaterally estopped with respect to factual issues which were neither actually litigated nor necessarily decided. In this case, there are numerous genuine issues of material fact concerning Howmet's malice and lack of probable cause which were never even considered by the Federal Circuit, much less addressed in its opinion. Even the two examples of Howmet's bad faith considered insufficient by the Federal Circuit to, by themselves, support an award of statutory attorneys fees may well be sufficient, when presented in light of other facts evidencing malice and lack of probable cause, to justify a holding of malicious prosecution against Alumax. For these reasons, "Alumax's Motion To Dismiss And/Or For Summary Judgment" should be denied in its entirety.

Respectfully submitted,

TOWNSEND and TOWNSEND

By      GUY W. CHAMBERS  
Guy W. Chambers  
Attorneys for Plaintiff

Dated: May 15, 1986

**APPENDIX D**

**In the United States District Court  
Northern District of California**

**Before: The Honorable Stanley A. Weigel, Judge**

**C-84-5995 SAW  
San Francisco, CA  
May 29, 1986**

**U.S. Aluminum Corporation/Texas,  
A Corporation,  
Plaintiff,**

**vs.**

**Alumax Inc., A Corporation,  
Defendant.**

**TRANSCRIPT OF PROCEEDINGS**

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Raymond Linkerman  
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Thursday, May 29, 1986

The Clerk: Civil 84-8995, U.S. Aluminum Corporation vs. Alumax, Inc.

Mr. Vapnek: Good afternoon, Your Honor.

The Court: Good afternoon.

Mr. Vapnek: Paul Vapnek, Townsend and Townsend, appearing on behalf of the plaintiff, U.S. Aluminum.

Mr. Popofsky: Good afternoon, Your Honor. Larry Popofsky and Jeffrey Leon, Heller, Ehrman, White & Mc Auiffe, appearing on behalf of Alumax, Inc., the moving party.

The Court: Yes, well, do you have anything to present that hasn't been presented in writing?

Mr. Popofsky: I believe, in fact, Your Honor, we have covered the waterfront.

Mr. Vapnek: Your Honor, there are perhaps one or two points that I think might be stressed, especially in light of some of the suggestions in the reply memorandum, that I think—

The Court: Well, let's—

Mr. Vapnek: —overstate the case.

The Court: Recently in these law and motion matters, I've asked counsel to be seated, and we discuss things in an informal fashion. Let's do that here.

Mr. Vapnek: Fine. Thank you, Your Honor.

Mr. Popofsky: Thank you, Your Honor.

The Court: Let's see what we agree upon. Do we agree that the standard for recovery of attorneys' fees in the patent suit was—required clear and convincing evidence, as distinguished from merely preponderance of the evidence? Is that agreed all the way around?

Mr. Vapnek: I think we can concede that that's—

The Court: —to be very careful. Don't just say "yes." Measure your words and get the other side to put up a bond and what have you. There isn't much question about that, is there?

Mr. Vapnek: Yes, Your Honor.

The Court: There is not?

Mr. Vapnek: There is not.

The Court: All right. Okay. I take it an issue that's presently before us in this case is whether or not in this case for malicious prosecution, the standard should be the same. Your claim would be that it's just preponderance of the evidence, right?

Mr. Vapnek: In the ordinary malicious prosecution case, Your Honor, the standard would be a preponderance of the evidence. However, in reviewing the papers, I have suggested to the client that I'm prepared to stipulate that—in the trial of this case, that we would be bound by the standard of clear and convincing evidence, and I'm prepared to meet that standard, and I think we can even beat that.

The Court: Well, that being the case—I misspoke. I should have addressed that last question to the other side, but in view of your willingness to so stipulate, what, in your view, does that leave as the sole remaining issue—as to any remaining issue in this case? Any one or more. What is there then to be—what is there then at issue? The issue as to the standard of evidence has been eliminated by your agreement as to the standard of proof. We have before us now a motion to dismiss, or in the alternative, for summary judgment. So what issue—issues or issue remains to be disposed of in this present motion?

Mr. Vapnek: Well, Your Honor—

The Court: That's up for grabs.

Mr. Popofsky: As we understand it, Your Honor, they take the position that there are eight categories of fact, or eight facts, and they identified them in their brief, which they would like to go to bat to prove, and they claim that if they can prove those eight facts, then they'd been entitled to judgment.

The Court: Yes.

Mr. Popofsky: Our position is that those eight facts are evidentiary of the ultimate fact, in the parlance of the original restatement of judgment, the ultimate fact of bad faith, which, of course, was the issue in the federal patent proceeding. So the only legal issue which remains at this point is whether or not this court appropriately applies the restatement test to the claim that they

seek to preserve. And the restatement test which we cite in our brief is that from section 27 of the restatement of judgments, circa 1982, which says, and I will quote it: "thus, for example, if the party against whom preclusion is sought did in fact litigate an issue of ultimate fact and suffered an adverse determination," which they claim they did, "new evidentiary facts may not be brought forward to obtain a different determination of that ultimate fact." And then the restatement gives an example, in a negligence context, where it says that if you were found negligent, you can't relitigate that in another case, on the grounds, well, negligence as to speed is one thing, negligence as to going through a red light is quite another.

And we take the position that whether or not those eight evidentiary facts were or were not before the Federal Court in the patent litigation, and plainly at least three were, the last three obviously were before the court in the preceding litigation, whether or not all eight were, the issue to which those eight are directed, namely, bad faith, was clearly before the Federal District Court, and he ruled. He ruled there was bad faith, and that ruling was reversed.

So our view is—

The Court: Yes.

Mr. Popofsky: —very simply—

The court: I understand—

Mr. Popofsky: Okay.

The Court: —I think, your point.

I take it your answer to that—maybe you have a different answer—is that some of the facts upon which you rely here were not—were not disposed of in the prior case; is that right?

Mr. Vapnek: That's correct, Your Honor.

I would also suggest, Your Honor, that the question of bad faith, while the Court of Appeals for the Federal Circuit mentioned bad faith, the only context in which bad faith was mentioned was the filing of the two affidavits.

The Court: Yes.

Mr. Vapnek: There is a substantial other section of the findings by Judge Fish, in which he talks about—

The Court: I understand that—excuse me for interrupting—I understand the point you're making, which is that the Court of Appeals did not in terms say anything about a number of factors that were before the trial court.

Mr. Vapnek: Exactly, Your Honor.

The Court: That's your point.

Mr. Vapnek: Exactly.

The Court: I think you have some difficulty in that connection, and the difficulty is this: that the Court of Appeals didn't remand; it reversed. Therefore, if it's not illogical, in attempting to make some statement against the interests of this argument, therefore, it's not illogical to assume that the Court of Appeals considered the entire record, and didn't remand, but reversed, so I think that—

Mr. Vapnek: But, Your Honor—

The Court: —I think in this case your adversary has the better of you.

Mr. Vapnek: That may be, Your Honor, but—but it seems to me that they have really disregarded the differences between a malicious prosecution action on the one hand, and the exceptional case standard for the award of only attorney fees in patent cases on the other hand. They are really two different kinds of relief.

The Court: Yes, that may be true, but if the standard to govern is the same with respect to both kinds of relief, what difference does it make?

Mr. Vapnek: I'm—the standard is not the same, because the malicious prosecution action, the recovery, or the attempted recovery, encompasses a great deal more than mere attorney fees. And in fact, an award of attorney fees, as Your Honor knows, under section 285 of Title 35, is discretionary, so that even if there were a finding of bad faith, and even if the Court of Appeals had affirmed a finding of bad faith, if Judge Fish had decided, in his discretion, that he did not want to award attorney fees, there would be no relief. And if we take Mr. Popofsky's argument to its conclusion, it would mean that would bar malicious prosecution

actions, and I find that difficult to comprehend, that there would be some kind of intention in section 285 of encompassing the field.

As a matter of fact, the award of attorney fees under section 285 is not just on the basis of bad faith. It can be on the basis of inequitable conduct, or even gross negligence, and the CAFC talks about those factors.

The Court: What is your answer to that?

Mr. Popofsky: Well, I think, Your Honor, it is the answer of the centuries, that they had their choice to hold their firepower, keep it dry, not seek attorneys' fees in the federal court, because they did not think it was an adequate or suitable remedy for the harm that they were suffering, and bring their malicious prosecution claim in—in state court, as Handgards appears to indicate they could do, as an option—

The Court: Yes.

Mr. Popofsky: —and then seek it in state court, but they didn't do that.

The Court: Yes, but—

Mr. Popofsky: They fired their gun in federal court and sought specifically an award of attorneys' fees based on the factual finding—

The Court: Well, that argument—the argument you now make I do not find all that impressive, because it suggest that there was a conscious—either conscious or inadvertent election, which I don't think is the case, but—

Mr. Popofsky: Well, Your Honor—

The Court: —you mentioned Handgards, and I think Handgards tends to come to your rescue, because Handgards held, did it not, that it was appropriate in a patent case, in view of the governmental policy to uphold the rights of patentees, to require a higher standard than normal in a malicious prosecution—

Mr. Popofsky: Yes, it did.

The Court: —suit.

Well, I think we've explored it. Do you want to let the matter stand submitted?

Mr. Popofsky: Yes. I would only add, Your Honor, before we submit it, that I—with all respect, I don't find the argument persuasive that somehow the fact that the attorneys' fees were the target in the—in the federal action, and that malicious prosecution gives them a much more juicy target in state court, really speaks to the question of collateral estoppel or res judicata. They had a go at it. They elected to go at it, and they adjudicated it. They sought an adjudication of it. It was fully litigated, both sides, by counsel. Indeed, it was bitterly contested. And I've always thought that those were the criteria for invoking the res judicata and collateral estoppel, i.e., did you have a fair opportunity to litigate, whatever the target, whatever the context, whatever the cause of action.

The Court: All right.

Mr. Popofsky: Anyway, we're prepared to submit it.

Mr. Vapnek: Your Honor, if I may—

The Court: Sure.

Mr. Vapnek: —at the risk of prolonging the matter, the mention of Handgards suggests a different twist. The footnote, footnote 17 in the Handgards case, seems to me to point in a different direction from what counsel argues. That is, while it is a footnote, and it's really not a holding of the case, the court suggests in Handgards that there are three ways to recover, and they don't seem to indicate that they're mutually exclusive. The court in footnote 17 mentions section 285, mentions malicious prosecution, and mentions antitrust liability, and there's no indication, and in fact, to the best of my knowledge, I'm sure counsel will agree, there is no case on point addressing the issues in this particular matter.

The Court: Well, the thing that you have in your favor is that I read between the lines of Handgards, and it went farther than you're asking for in patent litigation than it should have, and that distresses me.

Mr. Vapnek: Considerably further.

The Court: But you submit it? Reluctantly.

Mr. Vapnek: We'll submit it, Your Honor.

The Court: One thing that I'm not clear on, maybe you—one or both of you can help me: What's the difference between "Preponderance of the Evidence" and "Clear and Convincing Evidence"?

Mr. Popofsky: It's metaphysical, Your Honor.

The Court: I think it's very metaphysical. I don't understand, never understood it in the Handgards case. That's why I said with a twinkle that one could assume that the Court of Appeals—I'm not talking about the Ninth Circuit now—considered the entire record below, but as you know from your experience as a law clerk, respected law clerk for one of the most highly respected judges of this Court, some of us on the trial bench feel that the reviewing court often fails to consider the record. You remember that.

Mr. Vapnek: I remember that very well, Your Honor.

The Court: But don't quote that to the Court of Appeals.

Mr. Vapnek: I shan't.

The Court: All right, gentlemen, thank you. You're excused.

Mr. Vapnek: Thank you, Your Honor.

Mr. Popofsky: Thank you, Your Honor.

(Proceedings Adjourned)



No. 87-1976

②  
Supreme Court, U.S.  
FILED  
JUN 30 1988

JOSEPH SPANIOL, JR.  
CLERK

IN THE  
**Supreme Court of the United States**

OCTOBER TERM, 1987

ALUMAX, INC.,  
*Petitioner.*

vs.

U.S. ALUMINUM CORPORATION/TEXAS,  
*Respondent.*

ON PETITION FOR WRIT OF CERTIORARI  
TO THE UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT

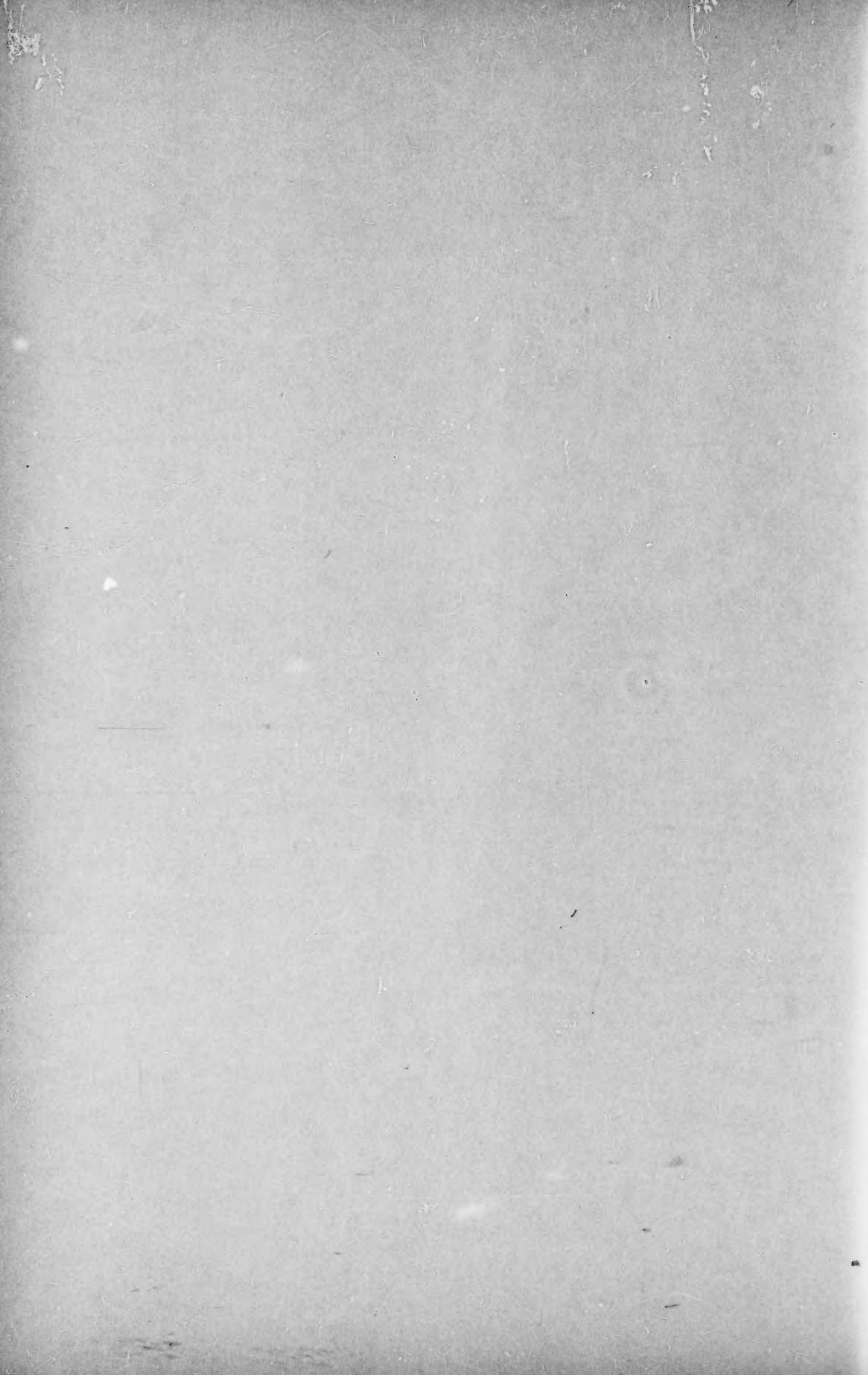
RESPONDENT'S BRIEF IN  
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## **QUESTIONS PRESENTED**

1. Is It Improper For A Circuit Court To make Use Of The Law — Rather Than The Parties' Mistaken Understanding Of The Law — As Its Basis For Determining The Proper Outcome Of A Legal Issue Submitted To It?
2. Does 35 U.S.C. §285 — Which Gives Discretion To District Court Judges To Award Attorneys' Fees To Victims Of Bad Faith Patent Infringement Actions — Constitute A Repeal Of The Traditional Common Law Remedy Of Malicious Prosecution Otherwise Available To Those Victims?

## **RULE 28.1 LIST**

International Aluminum Corporation is the parent corporation of respondent U.S. Aluminum Corporation/Texas. International Aluminum Corporation is also the parent of Calvex; Eland-Brandt; B.V. General Window Corp.; International California Glass Corp.; International Carolina Glass Corp.; International Extrusion Corp.; International Extrusion Corporation/Texas; International Window/Arizona, Inc.; International Window Corp.; International Window/Northern California; Ultra Industries, Inc.; U.S. Aluminum Corporation/Carolina; U.S. Aluminum Corp.; U.S. Aluminum Corporation/Illinois; U.S. Aluminum Corporation/California; Ragland Manufacturing Company, Inc.; and Ramaco, Inc.



## TABLE OF CONTENTS

	Page
QUESTIONS PRESENTED	
RULE 28.1 LIST	
TABLE OF AUTHORITIES .....	iii
STATEMENT OF FACTS .....	1
1. The Underlying Patent Action .....	2
2. The District Court Decision in this Malicious Prosecution Action .....	3
3. The Ninth Circuit Decision in this Malicious Prosecution Action .....	5
REASONS FOR DENYING THE WRIT .....	7
I. ALUMAX HAS NO BASIS FOR SEEKING CERTIORARI ON THE ISSUE OF THE NINTH CIRCUIT'S DECISION TO BASE ITS DECISION ON THE LAW, RATHER THAN THE PARTIES' MISTAKEN UNDERSTANDING OF THE LAW. ....	7
A. Under Supreme Court Precedent, Uniformly Adhered To By All Circuit Courts, An Erroneous Stipulation of Law Is Not Binding. ....	7

	Page
B. An Appellate Court's Fundamental Duty to Correct Errors of Law Supercedes the Doctrine of Invited Error. ....	10
C. By Correcting an Erroneous Stipulation of Law, a Circuit Court Protects the Integrity of the Law, Promotes Efficient Judicial Administration and Safeguards the Adver- sary System. ....	14
II. ALUMAX HAS NO BASIS FOR SEEKING CERTIORARI ON THE ISSUE OF THE NINTH CIRCUIT'S DECISION NOT TO ELEVATE THE STANDARD OF PROOF OF BAD FAITH FOR THIS MALICIOUS PROSECUTION ACTION. ....	16
CONCLUSION .....	20

TABLE OF AUTHORITIES

	Page
<b>Cases</b>	
<i>Air-Exec, Inc. v. Two Jacks, Inc.</i> 584 F.2d 942 (10th Cir. 1978) .....	11
<i>American Chemical Paint Co. v. Dow Chemical Co.</i> 164 F.2d 208 (6th Cir. 1947) .....	8, 14
<i>Aronson v. Quick Point Pencil Co.</i> 440 U.S. 257, 99 S.Ct. 1096, 59 L.Ed.2d 296 (1979) .....	17
<i>Avila v. I.N.S.</i> 731 F.2d 616 (9th Cir. 1984) .....	13
<i>Bradford v. U.S. ex rel. Department of Interior</i> 651 F.2d 700 (10th Cir. 1981) .....	10
<i>Carlile v. South Routt School District RE-3J</i> 739 F.2d 1496 (10th Cir. 1984) .....	13
<i>Consolidated Water P &amp; P Co. v. Spartan Aircraft Co.</i> 185 F.2d 947 (3rd Cir. 1950) .....	9, 12
<i>Consumers Power Co. v. Curtiss-Wright Corp.</i> 780 F.2d 1093 (3rd Cir. 1986) .....	12
<i>Dimidowich v. Bell &amp; Howell</i> 803 F.2d 1473 (9th Cir. 1986), modified, 810 F.2d 1517 (9th Cir. 1987) .....	10, 12, 13

	Page
<i>Estate of Sanford v. Commissioner of Internal Revenue</i> 308 U.S. 39, 60 S.Ct. 51, 84 L.Ed. 20 (1939) .....	8
<i>Exxon Corporation v. Governor of Maryland</i> 437 U.S. 117, 98 S.Ct. 2207, 57 L.Ed.2d 91 (1978) .....	19
<i>Ezell v. Hayes Oilfield Construction Co.</i> 693 F.2d 489 (5th Cir. 1982), <i>cert. denied</i> , 464 U.S. 818, 104 S.Ct. 79, 78 L.Ed.2d 90 (1983) .....	8, 12
<i>Fisher v. First Stamford Bank and Trust Co.</i> 751 F.2d 519 (2nd Cir. 1984) .....	8, 14
<i>Gilchrist v. Jim Slemmons Imports, Inc.</i> 803 F.2d 1488 (9th Cir. 1986) .....	13
<i>Gundy v. United States</i> 728 F.2d 484 (10th Cir. 1984) .....	12
<i>Handgards, Inc. v. Ethican, Inc.</i> 601 F.2d 986 (9th Cir. 1979), <i>cert. denied</i> , 444 U.S. 1025 (1980) .....	3, 4, 18, 19
<i>Havee v. Belk</i> 775 F.2d 1209 (4th Cir. 1985) .....	12
<i>Helvering v. Wood</i> 309 U.S. 344, 60 S.Ct. 551, 84 L.Ed. 796 (1940) .....	11

	Page
<i>In Re Lawson Square</i> 816 F.2d 1236 (8th Cir. 1987) .....	9
<i>International Travelers Cheque Company v. Bankamerica Corporation</i> 660 F.2d 215 (7th Cir. 1981) .....	11
<i>Kewanee Oil Company v. Bicron Corporation</i> 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974) .....	17
<i>Kincaid v. Sears, Roebuck &amp; Co.</i> 259 Cal.App.2d 733, 66 Cal.Rptr. 915 (1968) .....	6
<i>King v. United States</i> 641 F.2d 253 (5th Cir. 1981) .....	8
<i>Loctite Corp. v. Ultraseal Ltd.</i> 781 F.2d 861 (Fed. Cir. 1985) .....	18
<i>Marshall v. Nugent</i> 222 F.2d 604 (1st Cir. 1955) .....	12
<i>McPhail v. Municipality of Culebra</i> 598 F.2d 603 (1st Cir. 1979) .....	11
<i>Morseburg v. Baylon</i> 621 F.2d 972 (9th Cir. 1980), <i>cert. denied</i> , 449 U.S. 983 (1980) .....	20
<i>Motive Parts Warehouse v. Facet Enterprises</i> 774 F.2d 380 (10th Cir. 1985) .....	12

Page

<i>Murphy v. City of Flagler Beach</i>	
761 F.2d 622 (11th Cir. 1985) .....	12
<i>Noel Shows v. United States</i>	
721 F.2d 327 (11th Cir. 1983) .....	9
<i>One Lot Emerald Cut Stones v. United States</i>	
409 U.S. 232, 93 S.Ct. 489, 34 L.Ed.2d 438 (1972) .....	6
<i>Partenweederei v. Weigel</i>	
313 F.2d 423 (9th Cir. 1962), cert. denied, 373 U.S. 904 (1963) .....	13
<i>Peterson v. Clark Leasing Corp.</i>	
451 F.2d 1291 (9th Cir. 1971) .....	6
<i>Reactive Metals &amp; Alloys Corp. v. ESM, Inc.</i>	
769 F.2d 1578 (Fed. Cir. 1985) .....	6
<i>Saviano v. C.I.R.</i>	
765 F.2d 643 (7th Cir. 1985) .....	9, 14
<i>Schiavone v. Fortune</i>	
750 F.2d 15 (3rd Cir. 1984), aff'd, 477 U.S. 21 (1986) .....	9
<i>Sebold v. Sebold</i>	
444 F.2d 864 (D.C. Cir. 1971) .....	8
<i>S.E.C. v. Albert &amp; Maguire Securities Co.</i>	
560 F.2d 569 (3rd Cir. 1977) .....	8, 9

	Page
<i>Swift and Co. v. Hocking Valley Railway Co.</i> 243 U.S. 281, 37 S.Ct. 287, 61 L.Ed. 722 (1917) .....	7-11, 13, 15
<i>Terkildsen v. Waters</i> 481 F.2d 201 (2nd Cir. 1973) .....	11
<i>Twohy v. First Nat. Bank of Chicago</i> 758 F.2d 1185 (7th Cir. 1985) .....	12
<i>United States v. New York Telephone Co.</i> 434 U.S. 159, 98 S.Ct. 364, 54 L.Ed.2d 376 (1977) .....	5
<i>United States v. One 1978 Bell Jet Ranger Helicopter</i> 707 F.2d 461 (11th Cir. 1983) .....	14
<i>Ute Indian Tribe v. State Tax Commission</i> 574 F.2d 1007 (10th Cir. 1978), cert. denied, 439 U.S. 965, 99 S.Ct. 452, 58 L.Ed.2d 423 (1978) .....	9
<i>Van Nijenhoff v. Bantry Transp. Co.</i> 791 F.2d 26 (2nd Cir. 1986) .....	11
<i>999 v. C.I.T. Corp.</i> 776 F.2d 866 (9th Cir. 1985) .....	13
<b>Constitution</b>	
<i>United States Constitution</i> Article I, Section 8, Clause 8 .....	16

**Page**

**Rule**

Federal Rules of Civil Procedure Rule 51 ..... 12

**Statute**

35 U.S.C. § 285 ..... 2, 3, 6, 17

**Text**

Wright & Miller, *Federal Practice and Procedure*:  
Civil § 2551 ..... 12

**Miscellaneous**

36 C.J.S. Federal Courts § 297(18) *et seq.* ..... 10

No. 87-1976  
IN THE  
**Supreme Court of the United States**  
October Term, 1987

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**ALUMAX, INC.,**  
*Petitioner,*  
vs.

**U.S. ALUMINUM CORPORATION/TEXAS,**  
*Respondent.*

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**RESPONDENT'S BRIEF IN  
OPPOSITION TO PETITION FOR  
WRIT OF CERTIORARI**

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The respondent, U.S. Aluminum Corporation/Texas ("U.S. Aluminum") respectfully requests that this Court deny the Petition for Writ of Certiorari, seeking review of the Ninth Circuit's opinion in this case. That opinion is reported at 831 F.2d 878.

**STATEMENT OF FACTS**

Petitioner, Alumax, Inc. ("Alumax") seeks this Court's review of an opinion of the Ninth Circuit Court of Appeals reversing an order of summary judgment granted in the United States District Court for the Northern District of California. The District Court's grant of summary judgment dismissed a malicious prosecution action resulting from an earlier patent infringement lawsuit which Alumax<sup>1</sup>

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<sup>1</sup> The underlying action, *Howmet Aluminum Corporation v. U.S. Aluminum Corporation/Texas* (Civ. Action No. 3-82-426-6) N.D. Texas, was actually prosecuted by Howmet Aluminum Corporation.  
(Footnote continued.)

had lost against U.S. Aluminum in the United States District Court for the Northern District of Texas, and which U.S. Aluminum contends had been filed in bad faith.

The sole basis for the District Court's entry of summary judgment was its determination that U.S. Aluminum is *collaterally estopped* from filing the malicious prosecution action. Moreover, its only reason for concluding that collateral estoppel was applicable was the following fact: *in the underlying patent action itself*, U.S. Aluminum had been awarded attorney's fees by the trial court under 35 U.S.C. Section 285 at the close of trial, but had then failed to sustain that award on appeal.

### 1. The Underlying Patent Action

U.S. Aluminum has substantial basis for bringing its malicious prosecution action. The evidence that Alumax had filed and maintained the Patent Action in bad faith was plain enough that, even without the benefit of specific discovery on the issue of Alumax's motives, the District Court in the Patent Action concluded from its own observations in the trial that:

"Plaintiff [Alumax] persisted and continued to prosecute this action in bad faith in frivolous disregard of the facts, and in a manner to unfairly conceal or obscure or distort the facts." (E.R. 92, 173.)

Based on this finding, the trial judge granted the attorneys' fees U.S. Aluminum had requested in the prayer section of its answer, relying upon the special section in the Patent Code (35 U.S.C. §285) permitting the award of such

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Alumax's subsidiary and predecessor in interest. Excerpts from the Record on Appeal ("E.R.") 2, 39, 129.

fees upon *clear and convincing* evidence of “exceptional” circumstances. (E.R. 144, 171-173.)

Alumax was able to escape the attorneys’ fees order in the Patent Action by appealing to the United States Court of Appeals for the Federal Circuit. That Court *upheld* the defense judgment in favor of U.S. Aluminum on the patent infringement claim, but *reversed* the award of attorneys’ fees, finding that the evidence before the trial judge was not sufficient to satisfy “the heavy burden necessary to establish an exceptional case under 35 U.S.C. §285.” (E.R. 115, 116, 195, 196.)

Accordingly, U.S. Aluminum filed its action for malicious prosecution in the United States District Court for the Northern District of California, invoking the diversity jurisdiction of that Court.

## **2. The District Court Decision in this Malicious Prosecution Action**

After U.S. Aluminum filed this case for malicious prosecution, Alumax successfully moved for summary judgment, contending that U.S. Aluminum was collaterally estopped from litigating the issue of Alumax’s bad faith in bringing the patent infringement lawsuit. It argued, as it does here:

- (a) That because the Ninth Circuit had elevated the standard of proof from the “preponderance of evidence” standard to the more demanding “*clear and convincing evidence*” standard in the case of *Handgards, Inc. v. Ethican, Inc.*, 601 F.2d 986 (9th Cir. 1979) *cert. denied*, 444 U.S. 1025 (1980) (an *antitrust* case which was based upon an underlying patent action), the District Court should require U.S. Aluminum to show “*clear and convincing*” evidence

of Alumax's bad faith in this malicious prosecution action; and

- (b) That the Federal Circuit Court which had reviewed the decision in the Patent Action had found that U.S. Aluminum had failed to meet that higher standard.

(E.R. 42-49.)

In granting summary judgment, the District Court did not decide the issue of what is the appropriate standard of proof in this action, but was instead "relieved" of the obligation to do so by what it took to be a stipulation from U.S. Aluminum's former counsel that the higher standard of proof was applicable. For this reason, the portion of the District Court's written decision addressing the question of the appropriate standard of proof cites to *no* authority whatsoever, not even to the *Handgards* case cited by Alumax, but only to the "stipulation." (Petitioner's Appendix, A-7 and A-8.)<sup>2</sup>

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<sup>2</sup> To further its argument in this Petition, Alumax describes U.S. Aluminum's former counsel's "stipulation" as "strategic," and attempts to support this description by characterizing the words he used in the heat of the summary judgment argument as "a knowing and thoughtful decision made by experienced trial counsel to help his client overcome the exigency that he perceived at the time." (Alumax Petition, pp. 6-7, fn. 7.) The record of the summary judgment hearing, however, reveals that there was no "exigency" of a sort that could even potentially be mitigated or overcome by the "stipulation." (See Petitioner's Appendix, pp. A-23 to A-30.) This is not a case, for example, in which U.S. Aluminum was put to an election among various ways to attack the collateral estoppel argument. Moreover, there was absolutely no "strategic need," at a summary judgment hearing, for U.S. Aluminum's counsel to make use of this key dispositive legal concession in order to display confidence in the *factual* merits of his case, as Alumax argues (see Alumax Petition at p. 11, fn. 12).

The *real* reason behind the unfortunate concession is simpler than Alumax's "thoughtful strategy" explanation: U.S. Aluminum's former counsel — and, apparently, the District Court judge himself — had the

(Footnote continued.)

### 3. The Ninth Circuit Decision in this Malicious Prosecution Action

Thereafter, U.S. Aluminum filed an appeal with the United States Court of Appeals for the Ninth Circuit, arguing that the District Court's decision was wrong because Alumax's summary judgment motion had failed to meet three of the necessary prerequisites for collateral estoppel. Without reaching the issues with respect to two of these prerequisites (and expressly reserving judgment on those issues)<sup>3</sup>, the Ninth Circuit reversed. It ruled that collateral estoppel was not a bar to U.S. Aluminum's malicious prosecution action, because the standard of proof it faced in that action was not the same as the standard which the Federal Circuit had ruled it had failed to meet in the patent action. To reach this result, the Ninth Circuit found that the apparent stipulation on this issue, which U.S. Aluminum's former counsel had made during oral

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misapprehension that the key case relating to the motion, *Handgards, Inc. v. Ethicon, Inc.*, was a *malicious prosecution case* which had already resolved the "standard of proof" issue in favor of Alumax. (See Petitioner's Appendix, A-28, in which U.S. Aluminum's trial counsel was silent in the face of the District Court's erroneous description of the holding of *Handgards*.) In short, it is ordinary human error, not misdirected strategy, that accounts for the approach he took at the hearing.

<sup>3</sup> (See Text of Ninth Circuit opinion, at p. A-5 of Petitioner's Appendix.) For this reason, two of the issues which also support the reversal of the summary judgment motion here are not now before this Court. This alone suffices to make inappropriate Alumax's request for summary reversal. (See Alumax Petition, p. 14, fn. 21.). *U.S. v. New York Telephone Co.*, 434 U.S. 159, 98 S.Ct. 364, 54 L.Ed.2d 376 (1977) (prevailing party may defend favorable ruling on any ground which the law and the record permit).

argument, was an error of law and, therefore, not binding. Specifically, the Ninth Circuit recognized that:

- (a) The right to attorney's fees under §285 must be established by "clear and convincing" evidence. *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1582 (Fed. Cir. 1985).
- (b) By contrast, the right to damages for malicious prosecution need only be established by a "preponderance of the evidence." *Kincaid v. Sears, Roebuck & Co.*, 259 Cal.App.2d 733, 739, 66 Cal.Rptr. 915, 919 (1968).
- (c) Since the malicious prosecution action involves a lower standard of proof, there can be no collateral estoppel. *One Lot Emerald Cut Stones v. United States*, 409 U.S. 232, 93 S.Ct. 489, 34 L.Ed. 2d 438 (1972); *Peterson v. Clark Leasing Corp.*, 451 F.2d 1291 (9th Cir. 1971) (per curiam).
- (d) Neither *Handgards* nor the objectives of the federal patent law supported Alumax's contention that the standard of proof applicable to U.S. Aluminum's malicious prosecution lawsuit should be raised. (Petitioner's Appendix, A-3, A-4 and A-5.)
- (e) An erroneous stipulation of law is not binding upon the reviewing Court. (Petitioner's Appendix, A-3.)

## REASONS FOR DENYING THE WRIT

### I. ALUMAX HAS NO BASIS FOR SEEKING CERTIORARI ON THE ISSUE OF THE NINTH CIRCUIT'S DECISION TO BASE ITS DECISION ON THE LAW, RATHER THAN THE PARTIES' MISTAKEN UNDERSTANDING OF THE LAW.

Alumax's Petition for *Certiorari* charges the Ninth Circuit with this supposed error: that in reaching its decision it adhered to the law as it is, rather than adopting the erroneous version of the law which had been improvidently presented by the parties to the District Court.

The Petition to review the Ninth Circuit's decision should not be granted on this issue. Under established Supreme Court precedent, an erroneous stipulation of law has no legal effect. An appellate court's fundamental duty is to correct errors of law, whatever their source. This duty, which supercedes any equitable principle of estoppel, protects the integrity of the law, promotes efficient judicial administration and safeguards the adversary system.

#### A. Under Supreme Court Precedent, Uniformly Adhered To By All Circuit Courts, An Erroneous Stipulation of Law Is Not Binding.

Whether an erroneous stipulation of law is binding on courts is not an open and controverted question, as Alumax would have it. To the contrary, the question has long since been resolved by this Court. In *Swift and Co. v. Hocking Valley Railway Co.*, 243 U.S. 281, 289, 37 S.Ct. 287, 289, 61 L.Ed. 722 (1917), this Court unequivocally asserted that an

erroneous stipulation of law is *not* binding. In striking down a stipulation concerning the construction and legal effect of a written license, it stated: "If the stipulation is to be treated as an agreement concerning the legal effect of admitted facts, it is obviously inoperative; since the Court cannot be controlled by agreement of counsel on a subsidiary question of law." *Id.* at 289. See also, *Estate of Sanford v. Commissioner of Internal Revenue*, 308 U.S. 39, 50, 60 S.Ct. 51, 59, 84 L.Ed. 20 (1939) (stipulated definition of administrative practice does not bind the Court as it involves conclusions of law). Unaccountably, Alumax makes no reference to *Swift*, or *Sanford*, or their progeny, in its Petition.

Nor is the meaning of these Supreme Court precedents controverted. In applying these precedents, the circuit courts have uniformly refused to give effect to erroneous legal stipulations. For example, in *King v. United States*, 641 F.2d 253, 258 (5th Cir. 1981), the Court found it was not bound by the parties' stipulation as to the burden of proof. Similarly, in *S.E.C. v. Albert & Maguire Securities Co.*, 560 F.2d 569, 571, (3rd Cir. 1977), the parties' stipulation as to the interpretation of federal regulations was rejected in favor of the court's own determination. There are abundant other examples. See, e.g., *Sebold v. Sebold*, 444 F.2d 864, 870 fn. 8 (D.C. Cir. 1971) (agreement of counsel regarding proper disposition of property title not binding); *Fisher v. First Stamford Bank and Trust Co.*, 751 F.2d 519, 523 (2nd Cir. 1984) (stipulations of law generally not binding (dictum)); *Ezell v. Hayes Oilfield Construction Co.*, 693 F.2d 489, 492 fn. 2 (5th Cir 1982), cert. denied, 464 U.S. 818, 104 S.Ct. 79, 78 L.Ed.2d 90 (1983) (parties' stipulation as to choice of law not binding); *American Chemical Paint Co. v. Dow Chemical Co.*, 164 F.2d 208, 209 (6th Cir. 1947) (concession that action was controlled by particular precedent not binding); *Saviano v. C.I.R.*, 765

F.2d 643, 645 (7th Cir. 1985) (stipulation that parties executed a "Loan Agreement" not binding as to legal question of appropriate characterization of the transaction); *In Re Lawson Square*, 816 F.2d 1236, 1240 (8th Cir. 1987) (stipulation by parties as to proper interpretation of federal statute not binding); *Ute Indian Tribe v. State Tax Commission*, 574 F.2d 1007, 1009, (10th Cir. 1978) cert. denied 439 U.S. 965, 995, 99 S.Ct. 452, 58 L.Ed.2d 423 (1978) (stipulation regarding boundaries of reservation does not bind appellate court); *Noel Shows v. United States*, 721 F.2d 327, 330 (11th Cir. 1983) (stipulation as to admissibility of evidence does not bind trial court). *But see Schiavone v. Fortune*, 750 F.2d 15, 18 (3d Cir. 1984) aff'd, 477 U.S. 21 (1986) (appellate review precluded by party's concession that state relation back rule was procedural for purposes of application of the *Erie* doctrine).<sup>4</sup>

The Ninth Circuit's decision to rule on the basis of the law in this case is consistent with — and mandated by — *Swift* and its progeny. In granting summary judgment to Alumax, the District Court below had plainly relied upon the "stipulation" that the applicable standard of proof was the "clear and convincing evidence" standard. (Petitioner's Appendix at p. A-8.) The Ninth Circuit reversed, holding that the proper standard of proof was "preponderance of

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<sup>4</sup> *Schiavone*, cited prominently by Alumax at p.14 of its Petition, is an aberrational case which reached its outcome without analysis and without citation to any authority. Apart from *Schiavone*, the Third Circuit, like the other circuits, has uniformly adhered to the orthodox rule that it is the courts, not the parties, which decide issues of substantive law. See, e.g., *S.E.C. v. Albert & Maguire Securities Co.*, 560 F.2d 569, 571 (3rd Cir. 1977) (the Third Circuit declined to rely on a stipulation insofar as it purported to decide a legal issue); *Consolidated Water P & P Co. v. Spartan Aircraft Co.*, 185 F.2d 947, 949 (3rd Cir. 1950) (the Third Circuit expressly disregarded a stipulation as to choice of law).

the evidence," and that it did not matter whether the parties had stipulated otherwise. "Appellate courts," it stated, "are not bound . . . by stipulations as to the substance of law . . . regardless of what the parties say the law might be." (*Id.* at A-3.)

In refusing to be controlled by counsels' agreement on this question of law, the Ninth Circuit specifically and properly relied on the authority of its own prior reported decisions securely grounded in the *Swift* opinion. See *Dimidowich v. Bell & Howell*, 803 F.2d 1473, 1477 n.1, (9th Cir. 1986) modified 810 F.2d 1517 (9th Cir. 1987) (cited in the opinion below at p. A-3 of Petitioner's Appendix).

#### **B. An Appellate Court's Fundamental Duty to Correct Errors of Law Supersedes the Doctrine of Invited Error.**

Alumax argues that the Ninth Circuit's decision to rule on the basis of the law somehow contravenes the doctrine of "invited error."<sup>5</sup> (Alumax Petition, p.8.) This argument simply ignores the well established boundaries of the invited error doctrine. The courts of appeal apply that doctrine to promote judicial efficiency. Nevertheless, they recognize that they have a fundamental duty to correct errors of law. In the instances when these two principles conflict, the latter universally prevails.

The invited error doctrine is a common law principle of estoppel. As Alumax correctly asserts, it applies to erroneous stipulations on questions of fact<sup>6</sup> or on "mixed

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<sup>5</sup> Under the doctrine, one may not complain, on appeal, of the trial errors for which he is responsible. See generally 36 C.J.S. Federal Courts §297 (18) *et seq.*

<sup>6</sup> See, e.g., *Bradford v. U.S., ex rel. Department of Interior*, 651 F.2d 700, 704 (10th Cir. 1981) (party is bound by his stipulation that lands were riparian).

questions of law and fact,<sup>7</sup> and to untimely submission of legal issues<sup>8</sup> at least within certain bounds.<sup>9</sup> The doctrine also applies to mistakes in the framing of pleadings,<sup>10</sup> in submitting or objecting to evidence,<sup>11</sup> and in deciding

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<sup>7</sup> See, e.g., *International Travelers Cheque Company v. Bankamerica Corporation*, 660 F.2d 215, 223 (7th Cir. 1981) (party is bound by his stipulation that another party was indispensable to action); *Air-Exec. Inc. v. Two Jacks, Inc.*, 584 F.2d 942, 944 (10th Cir. 1978) (party is bound by his admission that another party was not indispensable to the action).

<sup>8</sup> See, e.g., *Helvering v. Wood*, 309 U.S. 344, 348, 60 S.Ct. 551, 553, 84 L.Ed. 796 (1940) (party is bound by his waiver of reliance on statutory section); *McPhail v. Municipality of Culebra*, 598 F.2d 603, 607 (1st Cir. 1979) (party may not advance strict liability theory for the first time on appeal); *Terkildsen v. Waters*, 481 F.2d 201, 204 (2nd Cir. 1973) (party may not challenge the award of pre-judgment interest for the first time on appeal).

<sup>9</sup> Courts are naturally not expected, in the normal course, to reach beyond the issues presented by counsel. In this sense, they are "passive." The fact that courts typically *address* only the issues raised, however, does not mean that they passively *adopt* lawyers' errors as to those issues that *have* been raised. Ours is not a case of an "unsubmitted issue." The issue before the District Court — whether collateral estoppel is applicable — was specifically submitted in the form of an Alumax affirmative defense, and specifically litigated in the context of the summary judgment motion based on that issue. Alumax observes that even in cases of unsubmitted issues, where "passivity" is the norm, Courts sometimes become active. Thus, it notes that issues such as jurisdiction and standing will be raised by Courts *sua sponte*, regardless of the lawyers' decision to submit those issues. But Alumax's observation is not *at all* contrary to this Court's decision in *Swift* directing federal courts actively to determine the proper legal outcome as to issues which are submitted to it, regardless of what the parties say the law is.

<sup>10</sup> See, e.g., *Van Nijenhoff v. Bantry Transp. Co.*, 791 F.2d 26, 28 (2nd Cir. 1986) (a party is bound by his pleadings when he combines claims in such a way as to invoke application of comparative negligence doctrine).

<sup>11</sup> See, e.g., *Motive Parts Warehouse v. Facet Enterprises*, 774 F.2d (Footnote continued.)

whether to accept, without contest, the results of motions or judgments.<sup>12</sup>

Occasionally, the doctrine applies to choice of law<sup>13</sup> and by *statute*, applies to erroneous stipulations as to jury instructions.<sup>14</sup>

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380, 391 (10th Cir. 1985) (a party is bound by his acquiescence to admission of documentary evidence); *Gundy v. U.S.*, 728 F.2d 484, 488 (10th Cir. 1984) (a party is bound by his incorrect use of an expert testimony standard).

<sup>12</sup> See, e.g., *Consumers Power Co. v. Curtiss-Wright Corp.*, 780 F.2d 1093, 1099 (3rd Cir. 1986) (a party is bound by his consent to a remittitur).

<sup>13</sup> See *Dimidowich v. Bell & Howell*, 803 F.2d 1473, 1477 n.1, (9th Cir. 1986) modified, 810 F.2d 1517 (9th Cir. 1987) (parties may, in the absence of strong public policy, stipulate as to choice of law; they may not stipulate as to the content of the law); *Twohy v. First Nat. Bank of Chicago*, 758 F.2d 1185, 1191 (7th Cir. 1985) (same conclusion); *Murphy v. City of Flagler Beach*, 761 F.2d 622, 630-31 (11th Cir. 1985) (parties' agreement to apply disputed law of state appellate court was "in a sense, a choice of law" and binding on the parties). But see *Ezell v. Hayes Oilfield Construction Co.*, 693 F.2d 489, 492 n. 2 (5th Cir. 1982) cert. denied, 464 U.S. 818 (1983) (parties' stipulation as to choice of law is not binding); *Consolidated Water P & P Co. v. Spartan Aircraft Co.*, 185 F.2d 947, 949 (3d Cir. 1950) (same conclusion.)

<sup>14</sup> See Fed. R. Civ. P. 51 (a party who fails to object to a proposed jury instruction is bound by it.) See also, e.g., *Havoc v. Belk*, 775 F.2d 1209, 1220 (4th Cir. 1985) (party submitting erroneous jury instructions is bound by them).

In fact, the special statutory treatment of jury instructions is the "exception which proves the rule." Jury instructions are, without question, stipulations as to the substance of the law. Nonetheless, the doctrine of invited error applies to jury instructions because *Congress altered the common law result which would otherwise ensue*. Congress sought to "lessen the potential burden of appellate courts by diminishing the number of rulings at the trial which they may be called upon to review." *Wright & Miller, Federal Practice and Procedure: Civil* §2551 (quoting *Marshall v. Nugent*, 222 F.2d 604, 615 (1st Cir. 1955)). This Congressional alteration applies *only* to jury instructions, and, plainly, no jury instruction issue is raised in this case.

The doctrine does not, however, extend to erroneous stipulations as to the *content* of the law, as Alumax contends. As to legal issues "already properly before it, such as the legal issue of collateral estoppel submitted by Alumax in this case, a court's duty is to determine the correct legal outcome. This duty *supersedes* the doctrine of invited error. As was stated by the Tenth Circuit in *Carlile v. South Routt School District RE-3J*, 739 F.2d 1496, 1500 (10th Cir. 1984):

"Parties to a dispute cannot stipulate to the law and assume the Court will follow blindly an incorrect interpretation of the law, especially in an unsettled and ever changing area."

For this reason, and contrary to Alumax's assertion, the Ninth Circuit's decision to adhere to the authority of *Swift* in this case does not, by any means, "effectively extinguish" the doctrine of invited error. The Ninth Circuit, like all the circuits, has reconciled the doctrine of invited error with the doctrine that courts will not be bound by erroneous stipulations of law.<sup>15</sup> The two doctrines are entirely compatible, and "peacefully coexist" within their own realms.

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<sup>15</sup> Compare *Gilchrist v. Jim Slemmons Imports, Inc.*, 803 F.2d 1488, 1493 (9th Cir. 1986) (party submitting erroneous jury instructions is bound by them); *999 v. C.I.T. Corp.*, 776 F.2d 866, 873 (9th Cir. 1985) (party consenting to remittitur is bound by it); *Partenweederei v. Weigel*, 313 F.2d 423, 425 (9th Cir. 1962) cert. denied 373 U.S. 904 (1963) (party may not advance a claim for indemnity for the first time on appeal) with *Avila v. I.N.S.*, 731 F.2d 616, 620 (9th Cir. 1984) (appellate court will review a claim not raised when it was abandoned due to an erroneous interpretation of law); *Dimidowich v. Bell & Howell*, 803 F.2d 1473, 1477 (9th Cir. 1986), modified 810 F.2d, 1517 (9th Cir. 1987) (appellate court rejects parties' erroneous stipulation that state antitrust laws are construed in accordance with federal precedent).

**C. By Correcting an Erroneous Stipulation of Law, a Circuit Court Protects the Integrity of the Law, Promotes Efficient Judicial Administration and Safeguards the Adversary System.**

Finally, Alumax contends that holding parties to erroneous stipulations of law is essential for the promotion of efficient judicial administration. Courts will become better able to manage their dockets, Alumax argues, if they are free to adopt, as their rules of decisions, the errors provided by such stipulations. In support of this argument, Alumax asserts, "there is no basis for appellate courts to review concessions of law differently from concessions of fact." (Alumax Petition, p. 12.)

This, of course, is a radical proposition. It is *precisely* the distinction between "concessions of law" and "concessions of fact" that courts use as their basis to determine whether the doctrine of invited error is applicable at all. See *Fisher v. First Stamford Bank and Trust Company*, 751 F.2d 519, 523 (2nd Cir. 1984) (stipulation of fact is generally binding; stipulation of law is not); *Accord, Saviano v. C.I.R.*, 765 F.2d 643, 645 (7th Cir. 1985); *American Chemical Paint Company v. Dow Chemical Co.*, 164 F.2d 208, 209 (6th Cir. 1947); *U.S. v. One 1978 Bell Jet Ranger Helicopter*, 707 F.2d 461, 462 (11th Cir. 1983).

The reason for this distinction is plain. Erroneous concessions of fact affect only the case. But erroneous concessions of law — if adopted by courts of record — affect the development of the law itself. Alumax acknowledges this to be a problem. (Alumax Petition, p.12.) Its proposed "solutions," however, are ones which, if adopted, would only create serious new problems. Alumax proposes:

- (1) That legal decisions be written to articulate two layers of law — (i) the erroneous stipulated law (to serve as the basis of a decision), and (ii) the judicially corrected “actual” law (to be overlaid in the form of a *dictum*). (Alumax Petition, p.14, fn.19.)
- (2) Alternatively, that the standards currently governing *publication* of cases (e.g. 9th Cir. R. 36-2 and 36-3) be *altered* so that cases (such as ours) whose subject matter is not *sui generis* and may indeed raise issues of general public significance shall nonetheless be withheld from publication whenever there has been an erroneous stipulation in the factual history of the case. (*Id.*)

Alumax’s unwieldy and needless “solutions” have no place in any rational system of law. They run directly afoul of Alumax’s own announced concern for efficient and effective administration of justice. And they serve no conceivable public policy.

Under current law, articulated in *Swift*, and implemented by the Ninth Circuit below, the courts maintain efficient judicial management *and* the integrity of the law. Errors of counsel do not linger, in any form, to affect either the writing of decisions or the determination of their publication, but are instead corrected, cleanly and simply. There is no demonstrated need to change this procedure here.

**II. ALUMAX HAS NO BASIS FOR SEEKING CERTIORARI ON THE ISSUE OF THE NINTH CIRCUIT'S DECISION NOT TO ELEVATE THE STANDARD OF PROOF OF BAD FAITH FOR THIS MALICIOUS PROSECUTION ACTION.**

Alumax's second, and final, basis for seeking *certiorari* is to claim that the Ninth Circuit erred when it rejected Alumax's argument concerning the proper standard of proof in malicious prosecution actions of the sort brought by U.S. Aluminum. Specifically, Alumax argues that whenever a successful defendant in a patent infringement action brings a subsequent lawsuit for malicious prosecution, it should be required to prove malice by "clear and convincing" evidence, not by "preponderance of evidence," which is the standard otherwise universally applicable to such actions.

Alumax does not dispute that (1) the malice element of common law tort of malicious prosecution ordinarily must be proved only by a preponderance of the evidence, and that (2) there is no case from any circuit which has ever applied the higher standard of proof Alumax proposes. It contends, instead, that state law governing this tort is preempted when the lawsuit which was maliciously prosecuted by the alleged wrongdoer was a patent infringement action. According to Alumax, it is the "purpose and objective" of federal patent law to enhance the right of patent claimants to assert their patent claims through infringement suits. Permitting states to maintain the traditional "preponderance of evidence" standard in connection with malicious prosecution actions for bad faith patent suits, Alumax contends, would interfere with that supposed policy.

Alumax's "evidence" of this "federal policy" is not the Patent Clause of the Constitution (Article I, Section 8,

Clause 8). The express policy set forth in that Clause is, instead, “To Promote the Progress of Science and useful Arts. . . .” That policy is fostered *not* by an unmitigated deference to those asserting patent rights, but by a *balanced approach* which supports *both* the right of patent claimants to assert their claims and the right of the public to make unhindered use of ideas which are not legitimately subject to a patent. As the Ninth Circuit stated below:

“Patents do not create an exception from state malicious prosecution laws. Indeed, the balance we reached in *Handgards* between the right of suing patentees and their defendants *presupposed* the continued existence of state law remedies for bad faith suits. . . .” Petitioner’s Appendix, pp. A-4 and A-5).

This ruling by the Ninth Circuit is perfectly consistent with this Court’s articulation of federal policy underlying the existence of a patent system.<sup>16</sup>

Nor can Alumax look to the attorneys’ fee provisions of the Patent Code — 35 U.S.C. Section 285 — to find support for its supposed policy of favoritism to patent claimants. That provision gives relief to a wrongfully sued defendant in a patent action that is not normally available to defendants in other actions: the right to recover for that wrong in the action itself, without the burden or impediment of being

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<sup>16</sup> By its nature, the federal patent system involves not an uncontrolled grant of private monopoly, but a carefully considered balance of competing objectives. In considering the federal patent law’s preemptive effect on state law, this Court has declared that the purposes of the federal patent system are (1) to foster and reward invention; (2) to promote disclosure of inventions in order to stimulate further innovation; and (3) to assure that ideas remain in the public domain. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262, 99 S.Ct. 1096, 1099, 59 L.Ed.2d 296 (1979); *Kewanee Oil Company v. Bicron Corporation*, 416 U.S. 470, 479, 94 S.Ct. 1879, 1885, 40 L.Ed.2d 315 (1974).

required to commence a new action. This extraordinary relief has a limitation: it may be awarded only if the successful defendant has clear and convincing evidence of bad faith. But it does not logically follow from this that the patent defendant's subsequent resort to the ordinary means of vindicating this wrong — a malicious prosecution action — is subject to the same limitation.

Consequently, the only "authority" Alumax offers for its novel proposal to raise the standard of proof in state law malicious prosecution actions is the existence of two federal *antitrust* cases in which the plaintiffs had claimed that the defendants' unsuccessful patent infringement action had been brought in restraint of trade. There, the courts found that the element of intent for the antitrust action must be established by "clear and convincing evidence." The first of these two cases was the *Handgards* case referred to above.<sup>17</sup> In *Handgards*, the Ninth Circuit determined, as a matter of interpretation of Congressional intent with respect to the antitrust statutes, that proof of an antitrust violation involving an underlying patent action is subject to the "clear and convincing evidence" standard. *Handgards*, 601 F.2d at 996.

However, Alumax errs in its claim that *Handgards* compels the higher standard in state malicious prosecution actions. In fact, *Handgards* not only fails to provide support for raising the standard in such actions, it provides authority, in dictum, directly prohibiting this step. The Ninth Circuit was concerned that raising the standard of proof in antitrust actions arising out of patent actions would create an imbalance by vitiating the remedies available to victims of bad faith patent actions. It answered its own concern by pointing to the continued viability of

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<sup>17</sup> The second, *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77 (Fed.Cir. 1985) follows *Handgards'* lead.

common law malicious prosecution actions to preserve the balance:

“[S]ubstantial disincentives to instigating ill-founded patent infringement suits that are not actionable under the standard of antitrust liability announced today *already exist*. For example, the patent laws contain a specific remedy for prosecution in bad faith. 35 U.S.C. Section 285 . . . and *nothing appears to preclude a successful defendant in an infringement action from bringing a common law malicious prosecution claim.*” *Id.*, 601 F.2d at 998 fn. 17 (emphasis added).

In short, the “neutered” version of malicious prosecution (which Alumax contends is mandated by the authority of *Handgards*) is plainly not what the Ninth Circuit had in mind when it decided *Handgards*.<sup>18</sup> The reason is simple. If the Ninth Circuit had raised the standard of proof to “clear and convincing” evidence in the case at bar, as Alumax proposes it should have done, that decision would have at least seriously weakened — and perhaps effectively repealed — the state law remedy of malicious prosecution available for bad faith patent infringement lawsuits.

Accordingly, even if the case at bar presented a question of federal preemption, the Ninth Circuit *fulfilled* the duty it has when presented with such a question. That duty is to strike harmony between the federal and state interests.<sup>19</sup>

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<sup>18</sup> Indeed, it is notable that the author of the *Handgards* decision, Justice Joseph T. Sneed, was on the panel of the Ninth Circuit that unanimously ruled in favor of U.S. Aluminum in the case at bar.

<sup>19</sup> See, *Exxon Corporation v. Governor of Maryland*, 437 U.S. 117, 130, 98 S.Ct. 2207, 2216, 57 L.Ed.2d 91 (1978) (conflicts between coincident federal and state regulation should not be sought out where no conflict clearly exists); *Morseburg v. Baylon*, 621 F.2d 972, 978 (9th

(Footnote continued.)

Rather than accept Alumax's invitation to debilitate state law malicious prosecution lawsuits, the Ninth Circuit has harmonized the consistent objectives of federal and state law, balancing the rights of patent claimants and the public, in order "to Promote the Progress of Science and useful Arts." Accordingly, Alumax's Petition for Certiorari should be denied.

### CONCLUSION

For these reasons stated above, a writ of certiorari should not issue.

Respectfully submitted,

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Cir. 1980) cert. denied, 449 U.S. 983 (1980) (crucial inquiry in a preemption case is not whether state law reaches matters also subject to federal regulation, but whether the two laws function harmoniously rather than discordantly).

